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## T. V. SOONG AS GOVERNOR OF KWANGTUNG

The appointment of Mr. T. V. Soong as Governor of Kwangtung is an event of unusual importance and of genuine interest to the Colony of Hongkong. In the issue of this Review of June 25th, 1947, we emphasized the importance of the inter-relationships between Hongkong and South China and of the necessity of close economic co-operation between the Colony and Canton. Kwangtung is second in importance only to the areas which form the delta of the Yangtse. Most of the vast resources of Central China are borne to the searoad either along the great waterway of the Yangtse to Shanghai or south to Canton by the rivers that flow to the southern delta or by the medial railway system from Hankow to Canton and to Kowloon the terminus of the railway in the Colony of Hongkong.

Kwangtung more than Shanghai is from its geographical position the outlet of China towards Hongkong, the Philippines, Indonesia, Siam and Malaya where the Chinese form an important and substantial part of the mercantile community. It is rich in minerals—wolfram, antimony, tin, and other produce, but free export is obstructed by monopolies and smuggling while communications although better than in the north are still in need of considerable rehabilitation and development. Recently the officials of the province have been preparing for a five year plan, and as it is free from Communist troubles which have retarded work in the northern provinces, this is the one part of China where an opportunity offers for a man of the calibre, energy and even ruthlessness of T. V. Soong to sweep away obstructions and develop the province to a fuller realisation of its vast potentialities.

Mr. Soong's position in China has for the last twenty years been outstanding. He has occupied many of the highest posts

and has been Minister of Foreign Affairs, President of the Executive Yuan and Minister of Finance. Abroad he is well known personally and by repute and has earned a reputation for vigour and financial ability. Foreign governments have displayed confidence in dealing with him. That Mr. Soong has accepted the Governorship of Kwangtung has in some Chinese circles caused surprise and evoked suggestions that after the failure of his financial policy to arrest the financial debacle which led to his resignation a short time ago the present appointment affords him a splendid opportunity to display his successful qualities and to restore his position in the political and economic sphere.

If the political rumours from sources intimate with internal affairs in China are to be believed Mr. Soong did not secure his appointment without considerable opposition particularly on the part of the partisans of what is known as the "C.C. clique" and the Political Science group, but it is evident that Mr. Soong had sufficiently strong connections to achieve the post.

Whatever the reason is for the appointment the Colony of Hongkong welcomes it and sees in Mr. Soong's regime an opportunity for the rebuilding and the development of the economic resources of the provinces which must react healthily on all the economic prosperity of this part of South East Asia. The coming of Mr. Soong is a token of the recognition on the part of the Chinese Government that the centre of gravity—at least economically—of China is shifting to the comparatively untroubled and admittedly rich province of the south and its outlet to the sea at Canton.

It may also be an earnest of a design of the Generalissimo to subordinate pro-

vincial military power to civil governorship, both to suppress any tendency to autonomy and to assist the transition from war to peace administration.

One of the tasks awaiting the herculean powers of the new Governor will be to cleanse the Augean stables of organised smuggling which is conducted on such a large and open scale that it cannot be without the knowledge or connivance or even active participation of naval, military and civil officials. The attempts to smuggle into China large cargoes of unmanifested cargo from foreign countries as well as from Hongkong and Macao would not be likely to justify themselves without an assured reception of the cargoes and a profitable return on their arriving at their destination. Nor could so much produce from the interior by-pass customs and exchange control in the process of export without considerable official facilities or at least of connivance.

The extent of these smuggling activities have long caused embarrassment to the Colony of Hongkong which is often blamed in public speeches and propaganda for what is in reality not its primary fault. Notwithstanding the fact that Hongkong is a free port, its Revenue Department is strained to the utmost in acting as a preventive corps to stop smuggling activities to and from the mainland and the Chinese Maritime Customs not only have an administrative office in the Colony for preventive work around the perimeter by land and sea, but also functions at the Kowloon terminus of the Canton Kowloon Railway.

The public interest in the suppression of smuggling is evidenced by an article of Mr. Himsworth of the Import & Export Department which is published elsewhere in this issue.



Asia's rivers radiate from the Himalayas. The Ob, Yenisei and Lena, which flow to the Arctic Circle, and the Amur, Hwong, Yangtze and Mekong which flow into the Pacific are among the world's longest rivers, but there are still five million of Asia's eighteen million square miles without drainage to the sea.

The mountainous terrain has made the rivers the natural medium of transportation and principal population centers. Thus, China with an area one-third larger and a population nearly four times as great as the U.S.A., has its enormous population squeezed into one-third of its area.

### Necessity of Better Communications

No civilization can progress beyond a subsistence livelihood without well developed communications for stimulating exchanges of trade and culture. Human labour is one of the world's greatest riches and yet in Asia it is so confined within the comparatively limited areas of accessibility as to be drug on the market.

It is axiomatic that labour rises in value as the cost of transportation declines, while conversely, the price of materials is reduced with a lowering of transportation costs, but commodities increase quantitatively in direct proportion to the reduction in transportation costs.

It is evident from this somewhat sketchy overall review of the Asiatic continent that improvement in transportation and communications is the first essential to helping the people of Asia to help themselves.

### The Pacific Ocean

The temperate sea is the cheapest highway, and civilization has expended progressively with man's mastery of larger and larger bodies of water from the Nile, Aegean, Mediterranean, Baltic, North Sea, Atlantic and now Pacific with leadership always going to the fleetest.

Distance will always remain man's problem, and gradually with each technical advance in transportation and communication the horizons will, in the future, be extended as they have been in the past. With modern vehicles of locomotion traffic increases as highways are broadened and the Pacific Ocean is the widest of them all.

It is 4,520 nautical miles by the North Pacific route from San Francisco to Yokohama and 5,477 via Hawaii, against 3,043 from New York to Liverpool. From an equatorial port in Brazil to Liverpool, it is only 4,043 miles, while from equatorial Singapore to San Francisco, it is 7,540 miles and from Sydney to Panama, 7,692 miles.

Even the distance between Pacific ports in Far Eastern Asia are not inconsiderable. From Yokohama to Singapore it is 3,020 miles. The distances from Great Britain and Europe to the Far Eastern ports, however, are colossal, even compared with the above. From Southampton to Sydney it is 12,496 nautical miles via Capetown; from Southampton to Singa-

## NATIONALIST MOVEMENTS IN THE FAR EAST

### The Problems Facing the French, Dutch and British

*It was Japan who actively promoted the anti-colonial movement of the peoples in the Far East and whose "Greater East Asia War" created, as a by-product, considerable moral and armed resistance against the re-entry of European powers into Burma, Malaya, Indochina, Netherlands Indies and the Indonesian archipelago. The problems facing the French, Dutch and British upon the victorious termination of the war were basically identical but the individual approach was different and has therefore led to different solutions. The London "Economist" in an article dealing with the political situation in the Far East, which is in extenso reproduced below, ends up by doubting both a sound future of European-Asiatic*

*political federations—the French and Dutch answer to the problem—and the British way of liquidating colonial rule.*

Three European nations have since the war been confronted with intense native independence movements in Far Eastern territories which were under their sovereignty in 1941. Britain in Burma, Malaya and North Borneo, France in Indo-China and Holland in Indonesia have had to face post-war situations which, in spite of local variations, have been broadly similar. Japanese invasion, spreading out to the Bay of Bengal in the west and to Java in the south, eliminated the European administrations—the British and Dutch in 1942, the French in 1945—destroyed their prestige, set up formally independent states and spread far and wide the doctrine of "Asia for the Asiatics." The Japanese gained little for themselves in the long run, for their arrogance and exactions soon made them unpopular with the peoples they "liberated," and the news of their military defeats quickly destroyed their temporary reputation for invincibility. But the impetus given to nationalist movements continued to operate after the downfall of Japan and brought together in new formations of leadership those who had throughout the war sided with the Japanese, others who had always resisted the Japanese and others again who had changed sides and at least begun to work a passage to the camp of the United Nations.

pore via Suez Canal, 8,110; from Southampton to Hongkong, 9,610, and from Southampton to Yokohama, 11,130 miles.

### The Future of the Pacific Area

The growth of trade in Asia during the interim period between World Wars I and II showed a remarkable increase.

Six of the world's thirteen largest port cities are on the Pacific, and the combined foreign trade of Pacific countries rose from 6 billion to 14 billion, or from 14 to 21 percent of the world's total between 1913 and 1929.

The trade of China and Australia with Europe declined during that period, while it increased materially with the U.S.A. and Canada.

Between 1910 and 1929, while the U.S. imports from Europe increased by 169 percent, the U.S. imports from Asia increased 563 percent, and during the same period, while our exports to Europe grew by 185 percent, our exports to Asia registered a growth of 806 percent.

These years are used purposely to avoid the abnormal trade conditions which accounted for further increases in the same direction in the post depression period. It is significant that this extraordinary growth had taken place in spite of the problem of vast distances already mentioned and prior to the great advance in transportation facilities created by the present war.

The chief problems in the path of the present urge on the part of Asiatic peoples to industrialize are not shortages in raw materials but, among other things, the lack of the use of power in agriculture, food, transportation, general education, pioneering spirit, commercial integrity, financial trusteeship, scientific management and political stability.

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### Japanese Prepared the Ground

In each area there were in 1945 native armed forces, which had either been trained and equipped by the Japanese or else supported and supplied with arms by Allied agents for guerilla warfare against them. In returning to their former territories in the last stage of the war, or after the Japanese surrender, the European Allies had to decide in each case whether to recognise the new political and military organisations as *de facto* authorities and negotiate with them, or whether to stand firmly on their juridical rights and treat any local power not authorised from the metropolitan country as a merely private and unofficial body.

### The British Re-entry

The conditions of re-entry into Southeast Asia were, however, very different for the British on the one hand and the French and Dutch on the other. The British fought their way back into Burma while the war was still going on and were able to land in force in Malaya immediately after Japan's surrender; thus they not only returned with the prestige of victors, but with sufficient strength to prevent usurpations of governmental power. In Burma, the Japanese-sponsored Republic under Ba Maw had been involved in the collapse of Japanese power, and Aung San's forces, who had crossed over to the British side, transforming



themselves overnight in British military terminology from the B.T.A. (Burmese Traitor Army) into the B.P.F. (Burmese Patriotic Forces), were not strong enough to make an open challenge to the jurisdictional sovereign. In Malaya, key points were taken over directly from the Japanese, and the Chinese Communist guerillas, who represented "resistance" in Malaya, had no chance to seize power; in Malaya, in any case, the division between the Chinese and Malay communities had prevented any real national movement from emerging, and the Japanese, anxious to keep so valuable a territory entirely in their own hands, had not tried to set up an independent state. Thus, both in Burma and Malaya, the British had a firm grip before the end of 1945. They had the power to protect their own nationals and properties until agreement could be reached with native leaders and were nowhere at the mercy of mobs acting in the name of "governments" which could not, or would not, control them.

### The Dutch and French Re-entries

For the French and Dutch the position was quite different. Owing to the conditions in their homelands they could only make their initial return to their Far Eastern territories through token detachments in the train of British forces marching in to take the Japanese surrender. Further, it had been agreed between Britain and the United States that northern Indo-China should be a Chinese strategic sphere; southern Indo-China, including Saigon, had long been allocated to Southeast Asia Command. Java, however, had originally been in the sphere of General MacArthur's command—as it had been assumed that a landing there would be made either from Australia or the Philippines—and was only transferred to Southeast Asia Command just before Japan's surrender.

These war-time dispositions, made for strategic convenience, determined the political issue. In northern Indo-China the Chinese protected the Vietnam Republic set up by the Viet Minh Party. In southern Indo-China, British forces did not recognise the authority of this Republic and co-operated with the French in re-establishing their control. In Indonesia, the British expedition to take over from the Japanese had to be improvised and was carried out with an inadequate force; at the outset, conscious of inability to defend themselves, the British, in spite of Dutch protests, accorded *de facto* recognition to the Indonesian Republic which had been prepared with Japanese support and proclaimed just after the surrender.

### Indochina and Indonesia

There was no consistency of principle in the British dealings at this time with the French and Dutch respectively. Morally, the French case was far weaker than the Dutch, for the "Vichy" administration in Indo-China had been collaborating with Japan up to March, 1945, and the Viet Minh had been a resistance party supported by the Chinese and

American authorities in Kunming. In Indonesia, on the contrary, there had never been any Dutch collaboration and Soekarno's movement had been thoroughly pro-Japanese—though it was subsequently joined by other nationalists who had opposed the Japanese. Yet the British gave more support in the critical days to the French than to the Dutch, the overriding consideration being one of momentary expediency. In the sequel, both the French and Dutch were able to land some troops, but found themselves confronted with "republics" in being, claiming sovereign independence and denouncing any return of European soldiers and officials as "aggression."

In international law, neither the Vietnam nor Indonesian Republics have attained any juridical existence, as no nation has given them formal diplomatic recognition; the French and Dutch are, therefore, within their legal rights in crushing them as rebels, if they can. Nevertheless, these new regimes have had time to establish themselves to a degree of strength at which they can only be overcome by regular military operations. Such warfare, when undertaken by the Dutch, has led to the intervention of the Security Council. The French had previously been carrying on similar warfare in Indo-China for half a year without attracting the attention of the Security Council, but the drift of events has made it clear to them that the procedure applied to the Dutch would be applicable, sooner or later, to them also, and France has therefore used the veto to stop a Russian proposal for direct Council supervision of the truce agreement in Java.

### The British in Burma

In Burma, by contrast, the British have managed to avoid any armed clash with the main nationalist leadership, have admitted it to power, and have raised no objection to the Constituent Assembly's decision to proceed to sovereign independence in the immediate future. After the assassinations a month ago, all the dead Ministers were at once replaced from the same party formation with the concurrence of the Governor, Sir Hubert Rance. There was no disposition to use the crisis as an occasion for the Governor to resume emergency powers or to postpone the constitutional development already planned to take place. The British people are certainly entitled to congratulate themselves that their policy in Burma has been successful in avoiding violent collision with Burmese nationalism and that they have not a costly and devastating colonial war on their hands in the Far East, as both France and Holland now have. On the other hand, they should endeavour not to indulge in an excessive self-righteousness in relation to their French and Dutch neighbours, but try fairly to understand, not only the initial disadvantages from which they have suffered in the post-war period, but also how their conceptions of the solution to the colonial problem differ from the British.

### The French and Dutch Approach

The French approach to the problem of colonial nationalism—and the Dutch in general share the French outlook—differs from the British fundamentally in its idea of the new relation to be established with colonial territories as a federal one. The British approach the question of India or Burma with a habit of thinking derived from the experience of constitutional adjustment with the Dominions over a long period of time. The British have never been strong on the theory of the state or the making of written constitutions, and they have never spent their time worrying whether the Empire was breaking up or not when self-government was given to territories which had been governed from London. The personal union provided by the monarchy was, of course, the element which gave continuity and averted any formal break; even so, the British mind has now become so accustomed to parts of the Empire setting up house on their own that, even if they want independent republics, it is no longer thought impossible for them somehow to belong to the Commonwealth. The British economic or strategic interests affected by these evolutions of self-government are by no means ignored and underrated, but it is a cardinal principle—or perhaps it would be better called an instinct—of British statesmanship that the important thing is to preserve goodwill into the new era as the only sure means of obtaining satisfactory settlements.

France and Holland, on the other hand, see the solution in their Eastern territories in terms of imperial federation—or rather of two-storey federations, for in each case there is to be a regional, as well as a general, federation; the Vietnam Republic is to be combined with Cambodia, Laos and, perhaps, Cochinchina in an Indo-China Federation, which will in turn to part of the French Union, and similarly the Indonesian Republic, comprising Java and Sumatra, is to be combined with East Indonesia in a United States of Indonesia, which will be combined in a federal union with the Kingdom of the Netherlands. In these schemes, real power will be held by the federal authority at each stage and, if the federation were entirely voluntary, great value might be claimed for such elaborate political systems. But the nationalists of Vietnam and Java see them as devices for maintaining French and Dutch rule in disguise. After all, it is the Vietnam and Java-Sumatra Republics which established a *de facto* independence, and the other territories with which they are to be federated are those over which the former European rulers have regained control. It is, indeed, very questionable whether there is any future for projects of federation between widely separated European and Asiatic peoples. The British way of liquidating colonial rule has its dangers, but it holds out better hopes of lasting co-operation than an artificial and complicated federal structure.



## THE OUTLOOK FOR PEACE IN INDOCHINA

After a series of official and private efforts made by French and Indochinese for bringing about the conciliation of certain sectors of the Vietnam people with the French Republic and establishment of a firm basis for cooperation for all the peoples living in and under the protection of the French Union, the French High Commissioner in Indochina (Hon. E. Bollaert) delivered a speech at Hadong on September 10. Hadong, a small city in Tonking, was almost completely destroyed by Viet-minh guerrillas and it thus symbolises the futility and frustration of war. The speech of the French High Commissioner embodies the terms for the mutually desired Franco-Vietnam union; while, however, important groups in Indochina are supporting the French offer there are other no less influential and powerful circles in the country which desire a further modification of the conditions as advanced by the French Government. All observers nevertheless are agreed that M. Bollaert's address is the most important event in recent Franco-Vietnam history.

Meanwhile, in Hongkong, the former Emperor of Annam, Bao Dai, after consulting here with most of the leading representatives of Indochina, has prepared to re-enter his native country and to establish a stable regime cooperating with the French within the French Union. All political movements, however, are still very much in flux and sporadic fighting is continuing. The Communist led Viet-minh, the party controlled by the most important political figure of Indochina, Dr. Ho Chi-minh, is holding out for conditions which are regarded by them as more satisfactory. However, the Viet-minh is also agreed on the principle of Franco-Vietnam Union within the framework of the French Union.

Hongkong, by virtue of its geographical proximity and as an outpost of progressive democracy in an otherwise so slowly improving Far Eastern political world, has witnessed many important discussions and conferences of Vietnam leaders of all colours which finally culminated in the recently concluded all-Indochina political conference held under the auspices of ex-Emperor Bao Dai.

In the following the speech of the French High Commissioner in Indochina of September 10 is reproduced:

\* \* \*

More than once, sooth to say, our Government, at home, have made plain their will to achieve, with the Annamite peoples a task of peace, as dear to their hearts as to those of the Indochinese.

This will has not grown remiss and the fault is not theirs if their will was not immediately turned into actual facts.

They have, doubtlessly, been approached, but the overtures made to them have never been attended with the least guarantees, and, more particularly, they have been vainly waiting for the positive declaration that the hostages would be set free, that our friends and fellow-citizens would be protected, as well in their bodies as in their assets and that French Presence and the French Union were neither called in question nor threatened.

On the other hand, we have been repeatedly asked to disclose the spirit in

which we meant to puzzle out the Indochinese problems, and to define the course of procedure towards a constructive policy able to put an end to the war now being waged, thus blessing these ravaged countries with the prospect of a better future.

This desire it is we mean to fulfil, in this town of Hadong entirely laid waste, whose ruins are still haunted by awe-laden remembrances, by calling on the Vietnamese people, on the whole Vietnamese people, to witness our Good Will, and by enabling it, if it do wish for it, to bring, as early as to-morrow, all its woes to a final end.

### The Vietnamese Goal

First of all, I want to expound what has so often been brought forward to us as being the goal to which the Vietnamese peoples aspire: "Freedom within the French union and the three united 'Ky'."

This freedom is the main foundation of the relations to be, between France and the peoples of Indochina. It is in no other way bound than by the limits forced on it by the fact that these territories belong to the French Union.

France is aiming at no conquest or re-subjugation and she renounces every kind of administration, whether direct or indirect. We are ready to hand over to the fully qualified governments, the management of Public Affairs, and we tender to them the offer, in so far as they will need them, of the help of our Civil Servants and Technicians. Each Indochinese people, conformably to its own genius, will define its conditions of existence. It will organize, quite by itself, its Representative Institutions, Judicial Proceedings, Finance, Education, Poor Law Administration, Hospitals, without the least encroachments on the part of the French.

### France's Assistance

Proclaiming that their peoples have a right to thrive and be happy, France will not only not hinder their economical soaring up, but will, on the contrary, make it easier by finding markets for them and means of having access to her own riches. We pledge our word of honour, as is proper in the case of free and equal peoples to treat with consideration, externally as well as deep into the core of things, the moral dignity of each of the peoples and of every single one of their citizens.

In so far as the Vietnamese peoples are concerned, this freedom entails a still more essential consequence; France does not take up any position with regard to the problem of three "Ky" which is wholly Vietnamese. It belongs to the populations concerned to solve it. France propounds no solution, she does not show any preference for any of all those which may be contemplated. What she can and must require is that the Union should not be made under pressure and according to totalitarian formulas universally condemned. What she has a right to expect, and that which she must look after, in case the Union should derive from a popular wish duly expressed, is that the local idiosyncracies, which made of these countries, owing to their traditional survival, so harmonious a whole, should not be rejected, and that the cohesion of the Annamite countries, which nothing is con-

trary to, should be based, not on the welfare of one only, but on the trust and friendship of all.

### Democratic Principles

The democratic principles must be respected, for they have struck very deep roots in these countries, and more particularly so in the case of village privileges. The conscience of the civilized countries would not bear that the domestic status of the States should be decided by the kidnapping of Notables and the mere cold blood murder of all opponents. The freedom of persons is quite as fundamental as the freedom of the Institutions. And, if we intend to promote the latter, it is not with the intent of sacrificing the individual to the oppression of an unfeeling political machinery. Therefore, by pledging ourselves to respect the right of self-government of the Vietnam, we pledge ourselves, most solemnly, in the same spirit, and on the strength of the intangible principles, not to tolerate any form of oppression whatever it may be.

This is why we shall not bear, even for a minute, that our friends should suffer, and, more particularly, the clear-sighted and plucky men who supported our cause. But, on the other hand, ready to acknowledge the self-devotion and the courage of men whom passion may have lured away into the opposite camp, we pledge ourselves not to wreak vengeance on them. All the prisoners, whether political or war prisoners will be set free, provided the action is reciprocated. For, after the termination of this fratricide war we do not want to treat any one as our enemy. We shall see in all men nothing but citizens of the French Union enjoying in a thoroughly equal way, the advantages accruing to the members of this large Association of Peoples.

### Indochina in the French Union

I already said, on the fifteenth of May that the French Union which must "frame in" the autonomy of the Indochinese peoples was not to be considered as a hindrance but as a blossoming out. It does not restrain private immunities but makes mutually wealthier peoples living in close contact. These peoples may, besides, as is provided by article 61 of the Constitution, have each its own Status and institutions fitting their own trends of thought. What is suited to Indochina may not be suitable, as a matter of course, to the countries where, for instance, Islam created different traditions. It is because of a sort of systematization that some minds have been led into believing that the final fulfilment of the French Union was the trapping of the associated peoples in a rigid frame by means of a similar and unalterable Status. Actually, the French Union is resilient and dynamic enough to allow a nation to develop freely in its own bosom. It is, rather than an unyielding mould, an aggregate of forces, ever on the move, each, through a never-ceasing interplay of exchange, giving and taking at one and the same time.

Thus it is that it affords to the elites of the Vietnam as well as to those of Cambodia and Laos, who might feel they want elbow-room in their native country, a field of activity reaching over several continents. I know intellectuals of this country who, having slaked their thirst for knowledge at various springs, Western as well as Eastern, feel, because they



perpetually outgrow their surroundings, the anxiousness of people who never find anywhere a home to their liking. They nowhere find the means of satisfying their contradictory aspirations.

### The Great Challenge of the French Union

To these tormented minds the French Union offers a firm ground on which they may rest their anguish. It is in the French Union that these men, groping after their own souls, will find their life spring and the use of well-balanced talents, hitherto painfully and unsteadily astride of several civilizations. For it is not only with us, in the Administration, in Industry, the Learned Professions and the French Army (now including in its ranks a Cochinchinese General) that the citizens of the French Union will be enabled to find openings. Throughout the Earth, where the Union has its own inner hinges, and where it is joined to the rest of the world, it offers key-posts everywhere, key-posts owing to which, those whose part it is to be used as links, will be given a full chance.

The example, chosen out of many others, of Governor General Eboue asseverates that I am not lulling you into false hopes. Must we remind you of the full success with which the Cambodians and the Laotians lately arranged, in Washington, jointly with French delegates, the restoration of territories which had been wrenched away from their respective motherlands. They gave a vivid proof of the reality of the French Union working on an international basis and of the efficiency of such a political system. Moreover a diplomatic body is going to receive, in the near future, a diplomatist of Cambodian origin, recommended by His Majesty King Sihanouk to be appointed by the President of the French Union.

Vietnam too, will have a share in representing this French Union, more particularly, in the neighbouring Asiatic countries where it has economic and cultural interests to defend, or subjects to protect. In the same way as representatives of Cambodia and Laos will be called upon to participate in the agreements defining the western boundaries of Indochina, so, it is but normal that Vietnamese representatives should be eventually called upon to contribute to negotiate international agreements of some kind or other every time these agreements will specially concern Vietnam itself.

### French Union is Indivisible

But, from a diplomatic point of view, it must be admitted that the Vietnam agents, whatever their rank may be, cannot be the representatives of the French Union. The French Union indeed, with regard to the foreign powers, is a whole having but one policy with which all its members concur. The idea that a diplomatic treaty concerning the whole French Union could be denounced by one of its members cannot be entertained. The French Union cannot be divided against its own self or it does not exist.

It is in the same spirit that the Constitution contemplates the security of the Union: "The Members of the Union", article 62 says "pool all their military means to guarantee the protection of the whole Union. The Government of the Republic will ensure the co-ordination of these means and the direction of a policy suitable to prepare and ensure this protec-

tion".

### The Military Forces of the French Union

The Army of the French Union is the instrument of this Defence. The French Union can have but one Army in the same way as it can have but one diplomacy. All the associated states and all the territories of the French Union have a share in the creation of this Army in which all the citizens of the French Union find their own place in conformity with the liberal and trustful rule of access to public functions in the Union.

To ensure the defence of the French Union and comply with the international demands, strategical bases and garrisons will be forthwith organized and occupied by the Armed Forces of the French Union, care being taken that they will not be a hindrance to the free growth of the country where they are to be found.

The Police Forces of the United States of Indochina will ensure in peace time, order at home in their own territories. In case of foreign aggression they will become part and parcel of the Armed Forces of the French Union for the defence of their own country and the Union.

Thus will be born a harmonious system within which the peoples of Indochina, confident of their freedom, will have, on an equal footing, their share of the international obligations of the French Union. A common treasure, at the disposition of all, the Union will lavishly provide its peoples with technicians, means of equipment manufactured goods, and will prove very helpful in finding outlets for their raw materials and produce. On the shores of the Pacific Ocean, Indochina, having a partly European and partly African hinterland, will find, far better than the States which are the prisoners or uniform political combinations, in the multifarious worth of the civilizing mission of the French Union and the spiritual values it embodies, the focus of a radiation worthy of the greatest human groups, and suitable to contribute to the maintaining of peace in this part of the world.

### The Inter-relationships between France and Indochina

I have just defined the position of the States of the Indochinese Peninsula, in the bosom of the French Union. You are now expecting me to call up the question of their mutual relations. Were it but because of their belonging to the same Union, these relations cannot fail to exist. These relations have been materialized by fifty years or more of common experiments within a rather strongly centralized system.

Now, in the Peninsula, a network of road, rail, air, electric telegraphic and telephonic systems, is weaving convergent lines revealing common interests.

*I believe that all rightly-minded people, without anticipating the way in which it will be convenient to manage these systems, agree with me on the point of acknowledging that no State would derive profit by shrinking into its own self. In my recent Hanoi speech I already had the occasion to insist on the regressive character of all insulated economic systems. The modern way of living lavishes the fullness of its advantages only on large enough groups. It is therefore obvious that the Indochinese States will best ensure the growth of their potentialities and the managing of their own concerns by main-*

*taining, for instance, a liberal but common customs system, a common currency and a common policy of immigration.*

*In the same way, instead of working singly, they will have to co-ordinate their efforts towards a better equipment, by planning together, they will have to agree concerning the methods to be used, to promote a resolutely progressive policy of social production, and they will have, at last, to better the condition of the masses. For, through a kind of osmosis, the standard of living of given populations ever tends to reach a state of balance in the case of States belonging to the same geographical whole, so that it is impossible to raise, in a substantial manner, the standard of living in one of these countries, if the same thing is not done at the same time in the others.*

### Economic Equality

With the same will to facilitate the working of the individual institutions of the States, the High Commissioner and the Commissioners of the Republic will settle so as not to weigh on the development of the local political life. They will be the defenders of the French economic and cultural interests which have already so widely contributed to the prosperity of this country. Thus, after having obtained the restitution of French property now requisitioned or used, for whatever reason it may be, the High Commissioner or his Delegate will take good care that our countrymen are enabled to enjoy all the democratic freedom enjoyed by the citizens of the States belonging to the Union and will see to it that our concerns do not fare worse than the local ones, the citizens and concerns of Indochina being, in return, certain of finding the same advantages in France. The High Commissioner or his Delegate will therefore insist on ascertaining that the personal and material status of French subjects is never once-sidedly tampered with.

In case of differences arising between the Indochinese States, the best arbitrator will be the High Commissioner. His duty will be to prevent one given State from either making an attempt on the sovereignty of another State, or from meddling with the private affairs of its neighbours, whether directly or indirectly. At last, the High Commissioner will have a special Status drawn up for the Southern and Northern minorities of Indochina, whose rights are considered by the French as having a sacred character.

### France's Indivisible Offer

Thus, France asks for nothing beyond that which obligations she cannot escape force upon her, i.e. all that is necessary to the very life of the French Union. She means to be highly conciliatory with regard to the bringing to bear of these primary principles which she cannot allow to be dissociated.

The offer I am rendering in the name of the Government of the Republic is an indivisible whole which must be either fully accepted or wholly rejected. We cannot permit a haggling which would verily be unworthy of such a noble cause.

Let all the wholesome energies of this country gather in the bosom of the governing organisms, and the adjustment of the France-Vietnamese relations will become easier. It is by giving to the whole French people the answer of all its populations that Vietnam will assert its political maturity.



## SMUGGLING AND PREVENTIVE SERVICE IN HONGKONG

By Eric Hinsworth

*Superintendent, Imports & Exports Dept.,  
Hongkong.*

Real smuggling is actuated by forces different from the delight of getting away without being caught. The greatest incentive is a high tariff, for this implies that there will be more than a reasonable margin of profit if those tariffs can be by-passed. A total prohibition of an article either by way of import or export will also foster smuggling.

A new feature has been added since the conclusion of the war, for exchange rates now play a more prominent part in the direction and volume of trade. If therefore a country maintains an artificial rate of exchange which is wholly out of alignment with its real value, there will be attempts to circumvent exchange controls which usually involve the circumvention of the normal channels through which goods purchased with exchange ought to pass. The factor which all these types of smuggling have in common is that all can, if successful, produce large profits, and it is this profit motive which, in the last resort, stimulates and is responsible for smuggling.

Today smuggled commodities follow the ordinary routes of trade. In this Colony there is far more contraband picked up on ships coming directly into the harbour, on the planes which land at Kai Tak, on the border road and on the railway than is ever discovered on the little frequented parts of the Colony.

It comes in described as something else with the hope that the customs officials won't open that particular case, or if they do they won't examine the whole of it.

The cruder method, but one which is not unknown in this part of the world, is to bribe the appropriate official to let it through.

Few men in their right minds would deny that no smuggling with neighbouring countries originates in Hongkong. Where the misconception lies is in the belief that the Colony lives by smuggling alone, and secondly in the extent to which smuggling is practiced in this Colony.

One unfortunate fact about smuggling from or into this Colony is that it cannot be measured in facts and figures. No one knows or can say how much smuggling goes on, and thus the wildest estimations can neither be refuted nor, of course, can they be supported. The existence of contraband goods in neighbouring countries is too often interpreted as proving first that they came from Hongkong and secondly that Hongkong is responsible for their being there. In Hongkong, if we find a commodity on the market which ought not to be there, we find out where it comes from and seize it from the seller: but there is little evidence that the commodities alleged to have been smuggled from Hongkong are subject to this examination or these penalties in neighbouring countries.

The indisputable inference is, of course, that the presence of these contraband commodities in the shops of neighbouring cities is not seriously objected to, and the obvious conclusion is that only half-hearted attempt is being made to keep them out. In point of fact, large-scale smuggling implies that there is an organisation working at both ends.

It would be most uneconomic to load contraband in Hongkong if there was not a reasonable prospect of getting it through at the other end. Organised smugglers take risks like all business men, but they rarely take foolish risks. The whole scheme of organisation must be covered from port to port, and, since contraband moves in the main down the recognised trade channels in this part of the world, it is difficult not to say that the movement of smuggled contraband would be impossible without the connivance of officials. When unmanifested cargo arrives in the ports of destination, arrangements have been made for its reception. All the big seizures which are made can be traced to the fact that somewhere along the line someone talked, who was not expected to, or the arrangements broke down in some other particulars.

Perhaps the strongest reason for the decline of Hongkong as a smuggling base has been the ease with which goods can be smuggled direct from the country of manufacture on to the markets where they will ultimately be sold. It is not worth the extra expense of bringing them to Hongkong plus the risks which might be involved in transhipping them here as unmanifested cargo. The best and most lucrative markets for contraband goods in the Far East do not lie in the hinterland of Hongkong, and there is little point in deviating from a straight voyage if for a small extra payment in the right quarters it can be avoided.

Hongkong has been particularly active in suppressing not only the smuggling of contraband into the Colony but also in preventing smuggling from the Colony to other countries in the Far East. It is probably true to say that no country in the world spends more time and effort in enforcing, although indirectly, the Customs laws of its neighbours. Small-time smuggling is discouraged by a law which states that no ship shall go to a port other than that for which it has cleared. There can be no deviation of voyage from the port mentioned in the clearance papers to drop the cargo at some other destination. When the ship returns to Hongkong it must show the chop of the port for which it cleared, or face the consequences.

At our railway terminus, the preventive officers of a foreign Power are permitted to operate, a privilege which, so far as I am aware, is not granted anywhere else in the world.

Our import licensing system also operates to prevent smuggling out of neighbouring

countries. The import of cotton yarn is prohibited except under licence in order to prevent the illicit entry into this Colony through channels which do not meet with the approval of the exporting country.

It is, however, mainly through the control of unmanifested cargo that Hongkong's greatest effort to prevent smuggling to other countries is made. Commodities which are placed on the manifest cannot, of course, be smuggled since they must be accounted for at the other end. The successful smuggler must, therefore, keep the goods off the manifest and yet carry them on the ship. The shipowners, too, are interested in keeping unmanifested cargo off the ship since they can collect no freight and some Customs services hold them responsible for unmanifested cargo found on their ships on arrival.

It is not commonly known that 30 per cent. of the entire revenue force in Hongkong is maintained constantly for the sole purpose of preventing the movement of unmanifested cargo. I doubt if any other preventive service in the world does so much for the interests of its neighbours. Moreover, the Colony's preventive service has not a bad record for the year. Unmanifested cargo taken off ships this year to date, on the valuation of the owners of such cargo, amounts to \$1½ million, but the true valuation is probably much higher. There have been 500 cases in the courts, and fines exceeding \$200,000 have been imposed in respect of them. In addition much of the cargo has been confiscated.

I have endeavoured to indicate that Hongkong's reputation as a smuggling base is based more on myth than actual fact. It would probably be true to say that in all the large ports of the Western Pacific the major portion of the smuggled goods have never seen or been near Hongkong. This being the case, all the efforts made by Hongkong, with the best of intentions, could never solve the smuggling problems of their neighbouring countries.

The solution to smuggling lies in the creation of a high sense of civic morality among the commercial population, who will only conform to restrictive measures which may have to be imposed on the movement of commercial goods, provided they are convinced of the reasonableness of such restrictions and the equity of their administration. If these basic factors are absent then the best Preventive Services in the world will not stop smuggling. If there is knowledge of injustice in the administration of restrictions on importers this will give rise to a feeling of resentment among all classes, including the Customs Officers, who will find it easier to conspire with merchants to defeat their own customs laws, when all believe these laws to be unjust.

In the long run, however, only the removal of trading restrictions and high tariffs can bring the complete elimination of smuggling. That delightful Elysium where ships can come and go, where passengers and freight can be placed on



## HONGKONG NAVAL & MILITARY LANDS FOR USE OF CITY DEVELOPMENT

(BY H. G. W. WOODHEAD, CBE)

The expansion of the business centre of the City of Victoria on Hongkong Island has, for decades past, been frustrated by the location, in the heart of that district, of some 98 acres of property leased to Army Council and the Admiralty, and utilised as barracks, parade grounds, official residences, and a Royal Naval Yard. The four roads running approximately from West to East, parallel to the Praya or Harbour Front are short-circuited by the Naval Dockyard, which has an area of 35 acres, and all Eastward traffic (including electric trams, and buses) has to converge on Queen's Road East, and pass between the Military and Naval Lands to reach the Wanchai district. Expansion of the business sector therefore stops short at the massive office-building of the Hongkong and Shanghai Bank, and when Wanchai is reached one finds oneself in an inferior Chinese shopping centre, which is frequently proclaimed as out-of-bounds to members of His Majesty's Forces.

The Military Lands not only occupy a locality which would be ideal for the construction of the urgently needed new office buildings: their location prevents the Peak (Cable) Tramways Station from being moved down to the main level, and necessitates a ten-minute walk mostly up-hill from the centre of the town, to the lower terminus. In the climatic conditions prevailing in this Colony, including a long hot summer, with intense humidity, and frequent heavy rains, this constitutes a genuine hardship to residents on or visitors to the Peak, who are not the fortunate possessors of motor vehicles.

The Military Lands include a Parade Ground, Murray, Victoria and the Detention Barracks, Military Headquarters, and the residences of the G.O.C. and other Officers. The Naval Lands include docks and workshops, and Wellington Barracks, and the best comparison that can be suggested is to imagine a 35-acre dockyard at Blackfriars Bridge.

When the British first occupied Hongkong Island, and even up to fifty or sixty years ago when motor transport was practically unknown,

ship, plane and train without let or hindrance is still a long way over the horizon. We can only hope that the nations among which we live will come to realize that the loss of revenue, the shrinkage of trade with the attendant lower standards of living, the creation of organised opposition to and contempt for laws imposed, can reach a point where they far outweigh the advantages which are sought. A realisation of these first principles is essential before smuggling disappears from our midst.

there might have been good reasons for maintaining the chief naval and military establishments in the centre of Victoria. It would have been difficult for the naval and military personnel to visit the City, except by long hilly walks or by launches, during their off-duty time, and much precious time might have been lost had serious disturbances required the immediate presence of garrison forces. These reasons no longer obtain. In an emergency troops could reach Victoria from any part of the island by motor-transport within half an hour. The Dockyard and its workshops cannot provide housing for its Chinese labour forces in its present location between the business section and the densely populated Wanchai area. Moreover the land, to-day, is far too valuable to remain undeveloped as an office centre. A few months ago the site of the old City Hall, adjoining the Hongkong and Shanghai Bank, realised over \$258 (£16) per square foot at public auction. It is just across the road from the Murray Parade Ground. At two-fifths of this figure, the Naval and Military Lands would be worth over twenty-five millions Sterling. Provision would, of course, have to be made, in the event of a sale, for the surrender of considerable land for new roads, piers etc. But there is no reason to doubt that new and up-to-date barracks and a modern Naval Dockyard could be constructed on other parts of the island, out of the net proceeds of the sale.

The problem is not a new one. As long ago as 1923 Sir John H. Oakley was sent out to Hongkong to value the Military Lands, which the local Government was desirous of purchasing. His award valued the Military Lands on the Island at \$13,553,978 and those in Kowloon at \$3,429,534. On his calculations the average value of the Lands in Victoria worked out at about \$8 per square foot. Though this valuation was considered excessive at the time, it was accepted after some protests, by the Legislative Council, which adopted a motion that "steps be taken to give effect to it as soon as possible." It will be noted that the Naval Lands did not come within the scope of Sir John Oakley's investigations.

For various reasons—the political crises that engulfed South South from 1924 onwards, and, when the project was revived, the outbreak of World War II in 1939—the purchase was deferred.

The Army and Navy also occupy considerable areas in the heart of the ceded area of Kowloon. These include Whitfield Camp and Barracks (41 acres) and the Naval Camber (15 acres). The camp and Barracks are the only undeveloped area suited for housing schemes within easy reach of the cross-har-

bour ferries; the Naval Camber occupies a frontage urgently required for wharf and warehouse accommodation.

The loan by the Home Government to Hongkong of the services of Sir Patrick Abercrombie, the noted Town-Planning expert, who is expected to arrive in October, suggests that the future development of Hongkong is to form the subject of careful study and planning. It is to be expected that the question of giving up the Naval and Military lands in the congested Victoria and Kowloon areas will receive serious consideration.

The 1923 project was based upon the assumption that the military lands, for which the Army Council paid only a nominal rental, would be given up in return for what the Governor described as "Reprovisioning the Military"—i.e. providing them with suitable and more modern accommodation in return for the lands released for public use. There are already barracks on the Island and in Kowloon which could probably be extended and modernized at a reasonable cost. The problem of the Naval Yard is different. It would be necessary to provide modern docks and workshops on another site, preferably on the island or within the ceded Kowloon territory.

One suggested site is Tytam Bay, on the south-east of Hongkong island, which would provide good shelter, and sufficient land for residences for the Staff and housing accommodation for the workers.

Some years would necessarily elapse before any comprehensive project for "reprovisioning" the Navy and Army could be carried through, but a start might well be made with the little-used Murray Parade Ground, the evacuation of which by the Army would enable the widening of the congested Garden Road, the extension of the Peak Tramway to the lower level and provide a new office building site approximately twice as large as that occupied by the Hongkong and Shanghai Bank.

As regards the Royal Naval Yard, the ideal scheme would involve the extension of the Praya and the filling in of the docks and basin. This, however, might not prove economical. If aesthetic considerations could be disregarded, it might prove more utilitarian to convert the dockyard frontage into piers and warehouses for ocean-going vessels, which could thus land passengers and cargo in the heart of Hongkong.

Note: The areas involved are:

City of Victoria:—Military Lands 63 acres, Naval Dockyard 35 acres. (4,270,680 sq. ft.)

Kowloon:—Naval Dockyard 15 acres; Whitfield Camp and Barracks 41 acres: (2,439,630 sq. ft.)



## PROBLEMS OF CHINA'S FOREIGN TRADE

At the National Foreign Trade Convention of China held in Shanghai during the third week of September prominent political and economic leaders, both Europeans and Chinese, aired their views regarding the problems facing the expansion of China's foreign trade. The President of Executive Yuan, Gen. Chang Chun, in a message to the Convention emphasised the importance of restoration of Chinese business ethics, the necessity to reduce smuggling and black market activities, the defective quality of export goods, the lack of adequate communications and the excessive cost of production in China.

Mr John Keswick, Chairman of the British Chamber of Commerce in Shanghai, addressed a representative gathering of the Convention on Sept. 17. Following is Mr. Keswick's full speech:—

The National Foreign Trade Convention has done me a great honour in asking me to address you today.

I approach the problems of foreign trade with all humility knowing that I am in the first place a foreigner and a guest in your Country, and secondly because the problems are complex politics, and the latter is a realm into which, as an ordinary business man, I hesitate to venture.

The whole world is now going through a hard period of reconstruction after the most devastating war in history, and we businessmen in China need no explanation of the effects that this period is having on trade. However hard conditions may be we must all strive to carry on to the best of our ability and with a true spirit of co-operation. Such conventions as this are a most excellent means of fostering this spirit and one of the most gratifying pictures that can be seen in Shanghai at present is the manner in which the businessmen of all nationalities maintain a friendly atmosphere, which is in no small measure due to the lead officials and business associates, who by instigating social and business gatherings provide the instrument which facilitates a mutual exchange of ideas.

### Difficulties of Import Trade

I have been asked to say a few words on the difficulties besetting the Import and Export trade of China. As you know there are many difficulties, the great majority of which, however, I am convinced can be overcome by hard work coupled with sincere goodwill and co-operation.

Let us take imports first:

Some months after the war it was apparent to many, that China sooner or later would be compelled to protect her rapidly diminishing resources of foreign exchange, so the promulgation of the Revised Tem-

porary Foreign Trade Regulations on November 17, 1946 did not come as a surprise, in fact it would probably have been advantageous for China to have taken such measures much earlier than she did.

### Import Board

The Regulations in themselves, although drastic, are no more exacting than similar measures in other countries, and the officials appointed to the senior positions in the Import Board were men of sincerity and integrity and were faced with a task of extreme difficulty.

The restrictive effect on the import trade by the Regulations was accentuated by the difficulties with which the Board had to overcome in establishing itself with an experienced staff, and also by the disturbing effect of changes in the personnel of the Government and the highest officials responsible for the policy of the Board. We all hope that these deficiencies have now been overcome.

### Import Reductions & Quotas

The import restrictions have brought about a considerable reduction in imports and the full effect of these measures is now beginning to be felt. It is obvious though that without much larger imports of machinery, mechanical equipment and prime movers, China's plans for industrial rehabilitation and development cannot be carried into effect and even her existing industries are threatened with a severe shortage of metals, chemicals, dyestuffs and many other essential commodities.

Industrialists in China are rather apprehensive at the moment of the methods being adopted to allocate a quota of imports to manufactures and also to the revised ruling that importers are strictly forbidden to enter into purchase contracts or make shipments of any goods from abroad prior to their obtaining import licences. Industries must plan ahead, but under this new ruling Chinese industries requiring foreign raw materials cannot estimate their production unless they can rely on regular supplies. It is considered that such uncertainties will slow down if not stop the Chinese manufacture of certain goods which will only lead to further shortages, high prices and possibly labour trouble. If quotas could be allocated and announced at least three months prior to their enforcement, suppliers, importers and consumers could make better plans for co-ordinating industrial requirements.

### Import Licences & Quota Allocations

Another troublesome matter in connection with imports is the ruling that Sales Contracts countersigned by the buyers' Guild shall be attached to applications for import licences. It would appear that this

order is now redundant and might with advantage be rescinded as the more recent regulations prohibits the entering into of purchase contracts abroad prior to the issue of the licence.

I will not go into the details of allocating quotas because this is a subject which has been fully discussed in the past and will no doubt be on the agenda of this convention. I will only suggest that any system of allocating quotas should take into account not only the interests of the import-trader but also the requirements of the consumer, that is to say the specifications, the stocks and the credit facilities which he requires.

The delay in the issuing of import licences and the corresponding foreign exchange permits has been serious and it is hoped that some means will be found of expediting such issues soon.

It must be appreciated that such rigid economic controls are entirely new to China and speaking as Chairman of the British Chamber of Commerce I can safely say that we have received nothing but courtesy from the higher officials of the Board when approached, and they have been most attentive to suggestions meant for the betterment of the trade. I am confident that with such men at the top many of our difficulties will be overcome in time.

### Difficulties of Export Trade

I am afraid the Export Trade of China has not prospered since V.J. Day, but the Chinese Government realizing the paramount importance of exports has for some time been giving most serious consideration to the subject.

Broadly speaking, China's exportable surpluses cannot find a market abroad owing to the high cost of goods and of services in China.

These high prices are influenced by many known factors such as poor but expensive transportation; high cost of labour and very high interest rates, resulting in excessive production costs. Although all these factors are capable of gradual improvement, until the civil war is ended conditions which will favour a sound expanding export trade cannot be anticipated.

The recent alteration in the Foreign Exchange Regulations which allows for a fluctuating open market rate should do much to stimulate the trade, but it is already evident that steps will probably have to be taken to control the domestic prices of exportable product before any real benefit will accrue.

It is in my opinion a pity that the Regulations do not permit more freedom to the Appointed Banks in the operation of the foreign exchange system. Greater freedom would bring greater enterprise in securing foreign currencies.



### Export Embargo on Edible Oils

If domestic conditions permit I would also urge the authorities to lift the embargo on edible seeds and edible oils as soon as possible as these commodities are one of China's greatest assets and those most likely to find a market abroad. The present season is the time for the export of these products.

### Interrelation between Exports and China's Development

I believe China's Export Trade is by far the most important branch of her whole economic structure. Without exports she cannot obtain foreign exchange and without foreign exchange purchases abroad of necessities for the development of the country and for industrialisation cannot be made.

May I digress for a moment to draw a distinction between the purchase of "necessities for the development of the country" and for "industrialization." China is in need of many necessities; railroads, light, power and water plants, and machinery to develop both her natural resources and her existing factories. In my humble opinion these imports should have priority over plans for new industries.

Your great leader Generalissimo Chiang Kai-shek who is well known for his keen interest in economic matters, has been reported as saying that Chinese economy is safe because China is an agricultural country.

This fundamental truth of China being a Farmer's land, is of outstanding importance. I believe the greatest work to be done in China is the development of the productivity of China's soil; the scientific and systematic increase of her crops and natural resources. If China produces more food in particular, she will not require to import so much, and she will have available surpluses for the purchase of machinery and other equipment which is manufactured abroad.

Allow me to review some of China's exportable products and to illustrate what I mean by my wish for a scientific approach to the problem.

### Exports of Silk

In 1929 I attended a dinner in New York given by the Silk Importers' Association. The President at that time was a Japanese, who made a speech in which he said that the threat to Japanese silk was not Rayon, but Chinese silk, should Chinese sericulture ever achieve the state of development which Japan had reached in her silk industry. This is still true today. If China can produce raw silk scientifically I have no fears that she will not regain her former position in this valuable trade.

### Tea Exports

China was the first of the great Tea producing countries of the world. Why have other areas particularly India and Ceylon, made such progress? The answer lies in the careful cultivation of tea bushes and the standardization of grades and I hope too that China's Tea industry may be brought up to date in a modern and efficient way.

### Other Exports

I have mentioned but two commodities, but the same applies to Bristles, Tung Oil, Skins, Hides, Seeds and Beans. Careful growing, careful selection, careful preparation for export is the first requirement of a long term policy. If this is put into effect demand for Chinese goods will be stimulated abroad and Chinese produce will gain a worthy reputation.

Cotton is not an export, but with good soil, careful fertilizing and hard work there is no reason why it should not become one in the far future and certainly no reason why China should not become self-supporting in Cotton thus eliminating a great drain on her foreign exchange resources.

### Minerals & Ores

A review such as this should not overlook wolfram and tin together with other ores and metals. Here again, up to date mining methods should produce profitable results because China is the happy possessor of a very large percentage of the world's total production of Wolfram.

### Import-Export Linking

In the past few months there has been much talk of linking imports and exports. I will not take up your time with a discussion of this troublesome question but I mention it as showing the simple truth that imports and exports are very much bound up together.

In my speech I have endeavoured to lay stress upon exports and I am confident that if China pursues a long term plan she can become one of the great producing areas of the world.

In conclusion, I have to reiterate a view which I have expressed on many occasions since the war. Amongst foreign traders I am known as an optimist. This is not because both the future import and export trade of China can be viewed with undue optimism, but because I will not admit despondency and I am convinced that the capacity of the Chinese people for hard work, and their determination to continue trading under adverse conditions is such that faith in them cannot be misplaced.

## PESSIMISTIC OUTLOOK FOR FOREIGN BUSINESS IN CHINA

*The Annual Report to shareholders of Bakerite Co., Fed. Inc., U.S.A., submitted by the managing director, Mr. A. B. Henningsen, one of the leading American business men in China, reviews general business conditions in Shanghai today. The Report states inter alia:—*

*In the face of a business situation which should indicate a bright and profitable future, we must say that the future looks gloomy. The present array of governmental impotence to deal with agitation and unrest or to maintain reasonable order is formidable to any manufacturing enterprise.*

*The government on the one hand urges the continuance of production to provide employment to the people. On the other hand it forbids the import of relatively small quantities of raw materials essential to operations. If we are successful in securing enough materials to continue manufacture, the profits of the business are obtained in Chinese National Currency. There is no way to convert these profits into a more stable medium of exchange. During the past twelve months the real value of Chinese currency has declined more than 90 per cent. Thus if Bakerite secures a net profit of 10 per cent. on a year's operation, the loss on currency devaluation would reduce the real profit to something less than 1 per cent.*

*The authorities seem to have overlooked the fundamental fact that deflation can only be accomplished through high production and increased distribution of consumer goods of all kinds. We have waited patiently since the war ended, for some practical application of sound economics. Unless it is soon forthcoming, we must prepare to consider sharply curtailing or discontinuing manufacture.*

*While the continued depreciation of Chinese dollars during 1946 represented a steady lessening of our earning power in terms of foreign currency the hardest blow to the business was struck on Nov. 17, 1946, when a Board for the Temporary Regulation of Imports was established which virtually prohibited further imports of all materials including flour. Thus our operations in 1947 have been characterized by using up our stocks accumulated in 1946 without the ability to replace them in any way.*

*We regret the necessity to be so pessimistic; but we do not want to mislead you with optimism unwarranted. The changing situation may improve our outlook for necessary rehabilitation, raw materials and stability. We do not foresee such changes in the situation at this time.*



## SUGGESTIONS FOR EXPANSION OF CHINA'S FOREIGN TRADE

The American adviser to China's Foreign Exchange Equalisation Fund Committee, Mr Arthur N. Young, addressed the National Foreign Trade Convention of China held in Shanghai during the third September week as follows:

China's interest in expansion of exports is both immediate and long-term. For the present, exports are vitally important to cover the cost of needed imports.

In two years since V-J Day the export situation has much improved. In the second half of 1946 the figure rose to 30%. In 1947 to date it has been 45%.

Under the new foreign exchange system begun a month ago export volume has been gratifying. There is a good prospect that in the coming months exports will cover a larger part than expected of the value of China's imports.

### Dependency on Exports

For the further future, China's progress will be greatly affected by the volume of capital received from abroad. Generally speaking, this capital, whether it comes as the proceeds of foreign credits or as direct foreign investment, will come in the form of imports. To pay for these China must depend mainly upon its exports. Hence, in order to be able to pay for capital imports, China will be wise to have a definite policy of promoting exports. It is not realistic to talk of seeking hundreds of millions of dollars worth of imported capital without its counter-part, a growing value of exports.

There are several main lines of policy that China will find advantageous in expanding export trade. One is to maintain the abolition of export duties which the Government wisely adopted a year ago. Closely related to this is a policy of holding to reasonable amounts internal taxes on export items.

### Realistic Foreign Exchange Rates

Also it is essential to maintain realistic rates of foreign exchange at which exports can move. This is wisely being done under the new exchange regulations, and will avoid such difficulties as have been met in the past 18 months.

### Taiwan and Manchuria Development

It is specially important to develop the potentialities of Taiwan and Manchuria. Under most favourable conditions, these rich regions could become great sources of export goods.

### China's Export Monopolies and Private Trading

Further, it will be wise to avoid monopolistic selling organization to handle characteristic Chinese products. In abnormal times such organizations may sometimes make a showing. But in the long run an effort to seek monopolistic prices abroad, above the levels set by competition with other sources of supply of the same or like goods, is likely to 'price out of the market' the country following such practices.

Private and competitive Chinese exporters ought to be encouraged. Instead of placing reliance upon Governmental organizations. The abnormal conditions that have led to greater Government trading in exports from China in recent years will afford hereafter less and less warrant for such trading. China will be wise to let private exporters come forward and take the field. Nevertheless in recent conditions, and especially because of the abnormal and changing foreign exchange situation, Government trading in some cases has steadied foreign markets and helped to provide a regular supply and thus to preserve the market for Chinese goods. An example of this is the recent handling of woodoil shipments by the Central Trust of China. But there should be a definite policy of diminishing the trading by Government organs, with a view to terminating it as soon as practicable.

### Lack of Business Ethics

Finally, exporters ought to feel increasing responsibility to seek to establish a permanent and continuing position of profitable trade, rather than to try to squeeze all possible gain from quick transactions by means that will leave the other party with no inclination to have further business dealings with the exporter. This is not only a matter of business ethics but of intelligent self-interest. For serious exporters a smaller margin on more transactions is better in the long run than a few quick deals. Standards of quality need to be raised in many lines, and strictly followed.

The day of sellers' markets will not last forever. Even now goods in many lines are coming into better supply throughout the world, and little by little there will be more competition. The time to push China's exports is now. For example, I would be glad to see China export certain textile products.

### Necessity For Export Promotion

Since, from the standpoint of national economy, the object of a country's exports is to pay for its imports, and thus bring value and profits to the country, China will find it wise to promote in every way feasible what may be called 'substitutes for exports.' I refer to production of goods now imported but which China can advantageously produce. First, is the restoration of national production of items formerly imported, notably raw cotton, and tobacco and coal, which now are far below the prewar level of output. Then there is the expansion of such items to meet future needs.

Furthermore improvement of internal transport especially by water and rail will encourage export of many goods which now cannot stand the present high costs of transport. Here, as at many points, in seeking means to improve China's economic welfare we find the need for better transport.

## TEXTILE MILLS IN SHANGHAI

In its privately circulated Quarterly Review, the China Engineers Ltd. reviews present conditions of cotton and woollen mills in Shanghai. Some extracts follow:—

Since the end of the war the necessities of the Government and their dire need of money, have led them to adopt a series of measures, which, if persisted in, will bring about the decline and ruin of all industries\*. It is interesting to observe that during the past few months most of the mills have issued their balance sheets and held their annual meetings to pass the accounts for 1946. But no one of them paid a dividend. The reason is obvious; the Government taxes on profits are so high that if the Mills were to show their earnings, or try to pay a dividend, most of their profits would be given over to the Government. Naturally this has a very depressing effect on the market. Shareholders expect dividends, especially the small holders. In the absence of dividends the market price of the shares goes down and it is a fact that all shares are at present quoted much below their true value based on assets and earning power. This results in a lack of interest in investments, and money is directed into speculative channels.

Another Government measure which is highly detrimental to the mills is the embargo on the export of textile goods. The situation that has arisen is probably fortuitous. In the days following the war it was considered wise to prevent exports in order to supply the enormous requirements of the domestic market. Later on, in its eager search for foreign exchange, the Govt. found that a fruitful source was in the export of cotton yarn and cloth, whereupon the Govt. mills were allowed to export, and the private mills had to deliver a proportion of their output to be exported through Govt. channels. The Govt. Departments have made such large profits on this export trade that they might be unwilling to allow private mills to make their own export arrangements†.

The import quota for wool and wool tops for the last three months is US\$2.1 million which has to be divided amongst all the mills in China including Govt. mills (ex-Japanese mills). This is less than 20 percent of what they require so that on the basis of the quota the mills can work only five or six days out of every month.

There can be no doubt of the importance of developing export markets for textiles. The anticipation that China would take the place of Japan in this important field has been disappointed. The mill owners should be given the full assistance of the Govt. in building up a strong and powerful industry constantly expanding, employing ever increasing numbers of well-paid skilled workers, thereby raising the general standard of living, and bringing about stability and contentment amongst the working people.

\* A rather sweeping statement with which we do not concur.

† Chinese and foreign private companies are understandably exercised about Govt. attempts at monopolising export business. (Ed.)



## TRANSACTIONS IN CHINESE IMPORT LICENCES

Since several months a lively black market in import licences issued by the Chinese Import Board has flourished here as well as in Chinese cities. A considerable number of listed and approved importers are actually not engaging in business but sell continually their import licences to either larger firms or brokers. The local "market" in import licences issued mostly in Shanghai in the name of this or that importer—who was so lucky or invested sufficiently to be included into the list of importers approved by the Board for Import Control—has previously negotiated import licences at between 25 to as high as 40% but since profit margins in China are on the decline, at least for the majority of imported commodities, the "fee" has been lowered during recent weeks.

A few small Shanghai importers, usually firms which did not exist before the outbreak of war, have been cashing in on the emergency position of China's trade; they have found that selling their licences guarantees them a certain unearned profit and enables them to dispense with practically all office and overhead expenses which otherwise would have to be defrayed. On the other hand the buyers of import licences, some of whom are reputable firms who cannot obtain licences for their goods to any sufficient extent (apart from the fact that many are practically excluded from doing business by being constantly refused import licences) are satisfied to bring goods into China at a very much reduced profit since some 20 to 40% are taken by the lucky or cunning possessor and/or broker of the coveted import licence.

### Amendment of "Rejections" in Shanghai

A steady flow of imports into Shanghai originates from the Customs Bonded Warehouses. Goods which arrived in Shanghai or other Chinese ports without being covered by an import licence were impounded and removed to a Customs Bonded Warehouse. At present there are large stocks of such goods ("pre-zero" commitments, i.e. goods which were ordered and/or shipped prior to Nov. 17, 1946; "post-zero" imports which failed to obtain a licence in time; unessential and luxury goods) stored up in bonded warehouses of Shanghai. However, during the past many months a good number of importers were able to obtain release from bond by making payment to the appropriate contact men of sums varying between 20 to 25% of the value as shown on the invoice.

As in the case of rejected application for the importation of goods into China, the insistent importer will have to find a competent and reliable contact man for rectifying this situation. The larger the amount of the invoice the better are the chances for an amendment and approval after "Rejection" had been stamped previously on the form of application sent in by the importer.

The contact men are often unreliable people who also have defrauded gullible or unlucky importers by requesting and

obtaining a certain down payment in U.S.\$, say 10 or 15% of the total import value, without later being able to perform what they were pledged to do, i.e. either produce an Import Board approval for goods to be imported, or clearance papers for securing the delivery of imported goods ex Customs Bonded Warehouse. In most cases the Chinese contact men with the necessary connections will require, before acting, for his own safety a sort of deposit so that a prospective importer will not eventually reconsider his orders; it has of course happened that contact men did obtain import licences against substantial "fees" paid to one or several officials, and then the importer did not wish to take up the licence for various reasons (mostly connected with a drop in prices, different foreign exchange rates).

### American Motor Cars

Most American motor cars of 1947

models, expensive limousines and sport cars, seen on the streets of Shanghai, are not there by virtue of a proper import licence; the importation of motor cars is at present practically prohibited. The heavy and expensive cars like Cadillac, Packards, Buicks, Chryslers, etc. cannot be legally imported at all. However, in Shanghai and some other Chinese cities such cars (latest models) are not infrequently seen. The fortunate owners, in most cases, had to pay some corrupt officials in order to get the cars into the country. The "fee" was during the earlier part of 1947 about U.S.\$500 per car which amount covered the licence plate as well. Since about July the "fee" was increased all over China—as if by common consent of a guild—amounting now to about U.S.\$1,000 per car. A rather popular method for getting a car into China is to have an official or otherwise important personage apply for the importation of a car into China, allowing such official the use of the car for a short period and then take over, often keeping the car registered under the name of the official.

## CORRUPTION IN KWANGTUNG

The vernacular press is full with more or less well documented accusations of corruption and graft in Kwangtung Province. The Chinese press in Canton is also not very reticent about abuses of the authority of a large number of officials since graft has reached unprecedented proportions.

The most unabashed exploitation of the people is carried out in the smaller towns and villages, in the districts and counties. A local Chinese paper described the form of corruption indulged in by officials in many if not all of Kwangtung's counties as follows:—

Although a county magistrate has to spend 45 million C.N. dollars in buying his position, he can still make tremendous profit out of it. The income of a second-class county magistrate may be calculated from the following: The post of district-chief is sold by him for 6 million dollars for a four-month term. His county usually consists of three districts, which can fetch 46 million dollars in eight months. He has jurisdiction over fifty villages ("Hsiang"), and each village-chief gives him 5 millions a term, thus adding another 500 million. Six middle schools each with a post of Principal are sold at 2 millions, giving a further 12 millions. Fifty "Centre Schools" account for 25 millions, with each school-master contributing 100,000. Four hundred "Pao Schools" contribute 80 millions to him from the school-masters. Six commissioners for land-taxes make another 48 millions, with each post being sold at 8 millions. The administrators of twenty reserve granaries make 200 millions. As custom goes, he is under an obligation to share money from the land-tax with his assistant on a 40%/60% basis, and so his net income under this item is 120 millions. The gross total of the above six items amounts to C.N.\$801,800,000. This means that he makes a net profit of about 761 millions, exclusive of the cost of buying the post of magistrate.

In addition, gifts from the village gentry, bribery, and other malpractices,

through conscription and food-levies, regular misappropriations of relief supplies from U.N.R.R.A., and other relief funds; fines from the wealthy in legal cases; controlling the prices of commodities; the screening of opium, gambling house and brothel offences; the pocketing of construction fees, the management of speculative enterprises, and the embezzlement of falsely reported vacancies, are all bigger resources for him.

Why does a Village Chief spend millions to buy his job? It must be known that a first-grade village consists of sixteen "Pao" on the average. In many instances the Village Chiefs of first-grade villages sell each post of Pao-chief at 50,000 dollars and collects 900,000 in all. To this, he collects in four months, C.N.\$13,600,000 from four gambling houses, 600,000 from each monthly. 80 millions accrue from fifty "Fan Tan" gambling sets; 40 millions from twenty opium divans; 80 millions from forty prostitutes; 5 millions from fifty able-bodied men escaping conscription; and 80 millions from smuggling rackets within his region. These seven items total C.N.\$227,500,000. A deduction of 20% of this sum is made in the form of a gift, to appease the magistrate's wife, commissioners, the civil guard commander and secretary, the chief councillor, and the Pao chief. He gains a net profit of 182 millions exclusive of the profitable use of the village rice-storage, vacancies in administrative positions, relief supplies, embezzlement, speculation, collecting taxes and all the like.

The Chief's subordinate, the Pao-chief (Pao is the administrative unit of hundred families) in his turn, sells twelve "Chia-chief" positions for 120,000; five able-bodied men for 500,000; four gambling sets for 6,400,000, and two opium divans for 4 millions. He shows a net profit of 11,150,000, exclusive of the original cost of 5 millions to buy his job.

The Chia-chief (Chia is the administrative unit of ten families) in turn gains 200,000 dollars for two able-bodied men



## EXCHANGE & FINANCIAL MARKETS

### GOLD TRANSACTIONS

Supply of gold, practically all originating in Mexico, in Hongkong and Macao has become ample and prospects for stepped up imports are good. Consequently the native banks and bullion brokers do not anticipate anything like the level of last week when one tael of gold on the average fetched \$360, or, at the average T.T. New York rate of last week (H.K. \$565 per U.S. \$100), about U.S. \$52½ per troy oz.

The tendency is downward; New York's free gold market transacts business around U.S. \$42/43 per oz, fob U.S. port. Adding all transportation, incidental and smuggling charges, an ounce of gold delivered to the clients in China should not cost more than U.S. \$48. It stands to reason that the growing competition of international gold brokers and bankers will result in a levelling down of profits which means a reduction in prices all over China's gold markets.

The latest addition to the gold import business comes from Siam; in the past there was always a trickle of gold arriving here, in Macao or direct in China ports such as Swatow, Amoy etc., but such supplies, apart from irregular and unreliable deliveries, never amounted to any appreciable quantity. It is only since the last few weeks that gold imports into China via Bangkok have assumed larger proportions and promise to flourish into a sizeable business.

Bangkok bullion dealers purchase, in a free Siamese market, foreign gold which is unloaded, from planes or ships, in Bangkok for eventual re-export to neighbouring countries. Most gold which arrived in Bangkok is of Mexican and American origin but there is also, although relatively negligible, a quantity of European gold in Bangkok's gold market. This latter gold came from Swiss and a few other European banks' vaults after the clients, many of whom being refugees and displaced persons, decided to liquidate their holdings. However, practically all gold imports have been negotiated by London bullion circles who buy in New York against sterling and sell to Siam against U.S. dollars, thus earning for the British

escaping conscription, and makes a net profit of 190 dollars. He has other privileges. He is free from conscription. He is above the law, and the social status of his family is elevated.

A certain well-known industrial company is, in reality, the private property of the big family which administers Kwangtung Province, in much the same way as Chinese national industry is operated by the Four Big Families. This company monopolises various enterprises and factories, such textiles, sugar, cement, glass production, rice, and industry, etc. Likewise, more than 60% of the county administrative organization has become a family tree, so as to carry out corrupt practices more effectively.

Exchange Control not inconsiderable amounts besides making, also in hard currency, very good profits.

The Bangkok market has always been narrow and the public hardly takes up a few hundred ounces during a week. Most imported gold is re-exported and lately the China market has come very much to the fore in the calculations of Bangkok's international financiers and brokers. The exciting profits made in the gold business with China, at first via Hongkong but during this year almost only through Macao, have kept a very numerous group of bankers and brokers on the alert for more and better business.

The importation of gold into China via Bangkok is the latest development. Everything naturally depends on the price; provided that Bangkok can supply at prices similar to Macao there should be every reason to expect brisk transactions. The question of shipping is of minor importance although from the point of view of costs it cannot be ignored. The Chinese traders in Bangkok, mostly of Swatow ancestry or recent immigrants from that part of north-eastern Kwangtung, can be relied upon to perform an efficient job in setting the bullion to the Chinese buyer.

The local preventive service has been on the look-out for gold imports, but with the exception of a few and rather fortuitous cases (due mostly to squealing among dissatisfied conspirators) no headway in the prevention of this illegal import business was made.

Nevertheless, there are some more sober importers who dislike to take any chances and they have therefore started to re-export gold from Bangkok to Macao from where this gold is to be re-re-exported to China. Thus Mexican mined and minted gold, until it is safely tucked away in a Chinese home or garden, is often enjoying a proper world cruise with stopovers in exotic places.

The first instalment of Siam gold for Macao is reported to be in excess of 10,000 ozs. The approximate price, fob Bangkok, per tael comes now to HK\$330, i.e. some \$30 less than last week's average market rate. Larger shipments to Macao are likely.

Meanwhile Macao's gold import licences for Mexican bullion and coins continue in a mess; the permit issuing authority in Macao cannot trace the whereabouts of import permits for gold already unloaded in Macao; permit holders pretend that they lost their papers or that only some part of ordered gold has been shipped while further instalments are still to come. The original holders of permits have, in many cases, sold their precious scraps of paper against a good profit, the buyers again having re-sold such permits until nobody actually knows who holds permits and which permits are to be surrendered. There is no doubt

that, although Macao Govt issued originally import licences for 800,000 troy ounces, eventually a much larger quantity of gold will be imported covered by permits, used one or several times. The Macao Govt is thus deprived of its just share as a fee of \$1 per oz could only be received once, at the time of issue. Some gold importers claim, as a sort of justification for their endeavours to make one import permit do the job of two or three permits, that they had to pay far more than \$1 per oz; in fact, some holders of permits state that originally there had to be paid, to and through some middlemen, at least \$2 or 3 in addition to the official fee (which went to the Macao treasury) while later transfers piled total costs up to \$10 per oz.

The local market was last week selling 21,550 taels on a cash basis (a turnover which has been quite regularly observed during recent weeks). The forward and fictitious paper tael business was very strong. The week's highest and lowest rates were \$36½ and \$350.

Shanghai's illicit gold market did a roaring business at prices ranging from CN\$3.1 million to 3.5 million per oz. The Hongkong dollar equivalent for Shanghai gold prices was around 390 per tael, i.e. about HK\$30 high than the local average price of last week. The gold cross rate in Shanghai, at the black market rate for T.T. New York, was US\$55 and over per oz.

An unconfirmed report had it that Central Bank of China raised its gold buying price from US\$40 to \$64 per oz, payable in CN\$ at the official open exchange rate. Since the official open rate was last week about 30% lower than the black market rate, the gold buying price of Central Bank—even if true which is doubtful—would only come up to US\$45 per oz against a current price of some US\$55.

Gold imports into China mostly via Fukien ports but also directly into Shanghai continue to be negotiated in Manila. Overseas Chinese in the Philippines and their principals in China are currently buying in Manila at between US\$47 to 48 per oz, against \$45 to 46 in June, August. Philippine mined gold has to be refined which is usually done abroad, often in London. The cost of mining, transportation and refining is large enough to justify a price in Manila which is now more than 10% higher than New York's free market rate of gold—or some 35% higher than the gold parity which fact should make the International Monetary Fund squirm.

### US\$ TRANSACTIONS

Demand was rather on the weak side which resulted in listless trading and uncertainty on the part of large holders of dollars in the U.S. The week's maximum and minimum prices were respectively: Notes 553-546; Drafts 553-548; T.T. 572-562. There was not much change against



the previous week, cross rates remained rather stable (US\$2.88 on the average) and lower again than New York and Levantine markets.

The decline in the value of the Chinese money in terms of US\$ and other foreign currencies, which became strongly accentuated last week, brought some flight capital into the Colony which is a usual occurrence at every time when the CN\$ heavily slumps. Such flight capital seeks often cover here for eventual transfer to New York and thus tends to strengthen the rate. However, there continued some sales pressure of the overbought speculation and some more US\$ hoarders, having lost confidence in their own or their advisers astuteness, continued to liquidate their hedges and re-transferred their money to Hongkong or other sterling area places.

#### BANK NOTE MARKETS

Piastres are, at weak prices, the medium of fairly active speculation; the spot market sold last week I.C. piastres 8,630,000. The forward market—a mostly fictitious affair with margin settlements—negotiated a very much larger amount which is difficult to estimate correctly.

Nica guilders remain stationary. Siamese baht are weaker than usual but are expected to firm up to around \$25 (for 100 baht).

Pound notes buying and selling has no effect on the exchange markets and trading in these notes (£1 and 10/-) can be well ignored except by travellers and petty currency smugglers. Not all exchange shops deal in them; there are days when hardly any transactions take place.

Against the T.T. London rate the local pound note sells at a discount of 20 to 25%. In New York's free market pound notes are these days traded at around US\$2.65 to 2.70, that is about 33% discount against the official London/New York cross rate, or about 12% discount against the so-called free or open funds rate for "Resident or American account sterling" (i.e. freely transferable sterling).

As has been stressed many times the import of Bank of England notes into the United Kingdom by post is prohibited. Travellers arriving from abroad in U.K. are allowed to take in with them notes to the value of £5 per person, but any excess over this amount is liable to be confiscated. There is no restriction on the amount of sterling that may be carried in the form of letter of credit or travellers' cheques, and persons proceeding to the United Kingdom

should only take with them a small quantity of £ notes to meet their expenses on board ship and to obtain a letter of credit or travellers' cheques for the remainder of the sterling funds they wish to take with them.

#### FURTHER DECLINE OF CHINESE MONEY

The Chinese dollar suffered a further and drastic devaluation during the past week; from CN\$43,000 per US\$1 during the previous week (ending Sept. 20) the rate had to be changed several times until, by the end of September, CN\$50.100 bought one US\$ on the official open market

of Shanghai. The devaluation during the last week of Sept. against the previous week amounts to 40%.

The final Sept. exchange rates of the Foreign Exchange Equalisation Fund Committee are: CN\$48,900 buying, 50,100 selling for T.T. New York; CN\$144,200 buying, 147,800 selling for T.T. London. The cross rate remained unchanged at US\$2.95 per £. Hongkong dollar was no longer quoted on the official open market as it was thought advisable to let it find its "natural level." According to the official sterling rate one HK\$ should quote CN\$9,300 selling; however, the black market quoted it over 11,000.

### HONGKONG OFFICIAL EXCHANGE RATES AGREED MERCHANT RATES

MAXIMUM SELLING				MINIMUM BUYING			
STERLING, 1/2 15/16	delivery within	1/3	1/32 T.T.				
	2 months with	1/3	1/16 O/D.				
	a cut of 1/32	1/3	3/32 30d/s.				
	for every further	1/3	1/8 60-90d/s.				
	3 months forward.	1/3	5/32 120d/s.				
—Do—		1/3	1/8 O/D if under L/Credit.				
(East & South Africa)		1/3	3/16 O/D with L/Credit.				
			1/32nd up every 30d/s.				
—Do—		1/3	5/16 O/D if under L/Credit.				
(West Africa & West Indies)		1/3	3/8 O/D with L/Credit.				
			1/32nd up every 30d/s.				
RUPEES (India)	82 %	83	3/4 T.T.				
		84	O/D.				
		84	1/4 7 & 30d/s.				
		84	1/4 60d/s.				
		84	3/4 80d/s.				
—Do— (Rangoon)	82 %	All buying rates					
		3/16th higher than India.					
—Do— (Aden)	82 %	84	3/4 O/D if under L/Credit.				
		84	1/4 O/D without L/Credit.				
		84	3/4 30 & 60 d/s.				
STRAITS \$	53	53	5/8 T.T. & O/D.				
		34	3/4 30 & 60d/s.				
U.S.\$	24 15/16	25	1/4 T.T.				
CANADA	2 months with	25	5/16 O/D—30d/s.				
	a cut of 1/16	25	3/8 60—90d/s.				
	for every further						
	3 months forward.						
U.S.\$ NOTES.		25	3/4 (Banks to pay Insur.				
			ance and Postage)				
AUSTRALIA.	1/6 1/2	1/6	7/8 T.T.				
		1/6	15/16 O/D.				
NEW ZEALAND.	1/6 7/16	1/6	13/16 T.T.				
		1/6	7/8 O/D.				

Buying rates on Rangoon were advanced recently from 1/16th to 3/16th higher than India which increase was necessary to cover the charge for remitting funds from Rangoon to India.

### HONGKONG UNOFFICIAL EXCHANGE RATES (IN HK\$)

		CN\$ (per one million)											
		Gold per Tael		Spot		Forward		S'hai	Canton	US\$	(per 100)	Pound	
Sept		High	Low	High	Low	High	Low	T.T	T.T	Notes	Draft	T.T.	Note
22	363	352	124	115	123	110	116	120	549	549	565	13	32 1/2
23	368 1/2	361	117	116	114	108	108	115	552	551	570	12 1/2	32 1/2
24	365 1/2	350	114	113	109	105	102	111	550	551	568	12 1/2	32 1/2
25	356 1/2	351 1/2	114 1/2	113	109	103	98	106	549	550	564	12 1/2	32 1/2
26	366	358 1/2	113	111 1/2	110	108 1/2	100	110	548	552	565	12 1/2	32 1/2
27	360	354 1/2	107 1/2	107	107	105	92	107	547	549	565	12 1/2	32 1/2



The black market of Shanghai has been vigorously leading the official rate and has eventually topped CN\$63,000 per US\$1, with even higher prices paid for T.T. New York. Although the FEEFC is trying to catch up with the tempo of the black market rate the foreign and Chinese pundits of the Committee were left behind by no less than 25% (which is the difference between the official and the black market rate even after the drastic devaluation of the CN\$ by FEEFC). Thus it is obvious that exporters will not feel encouraged to sell their export bills to the Chinese Govt. appointed banks, and overseas Chinese will think twice and then will not remit their money through Chinese Govt banks.

Inflation progresses and so does the cost of living and the rates for foreign exchange. Since the institution of the open exchange market rate—which we politely do not put between quotation marks—on Aug. 18 the black market quotation of US\$ has advanced by over 50%. Since the beginning of 1947 the black market rate for US\$ has advanced by 900%.

The Hongkong CN\$ exchange quoted Shanghai remittances as low as \$92 for one million of Chinese dollars at the end of last week. Lowest prices for CN\$ spot, future and Canton drafts were respectively: HK\$107, 103, and 106. These prices will be probably the maximum prices for the current week.

Central Bank of China persists in denying "rumours" about the early issuer of CN\$20,000 and 50,000 notes, probably intending to influence exchange rates. It is of course clear that higher denomination notes must be issued as the biggest note (10,000) is now worth less than HK\$1. Since confectioneries in Shanghai ask for CN\$10 million for one box of moon cakes the buyers have to roll along no less than one thousand bank notes of the highest existing denomination.

#### THE FATE OF U.S. SURPLUS GOODS IN CHINA

The Chinese Government, which obtained vast supplies of United States Army surplus property at a fraction of their cost, is re-selling much of this equipment to American firms at extremely high profits. Much heavy equipment such as road building machinery was bought for as low as 85 cents a ton and in at least one case a 20-ton crane was sold to an American firm for US\$18,000—half of what it would cost new but representing an enormous profit. One of the biggest selling items is tractors, almost unobtainable in the United States without a long waiting period. A shipment of them was sold to an American firm for US\$700,000. This is part of the equipment purchased at 85 cents a ton.

Some U.S. equipment sold by the Chinese Govt to South America includes highway construction machinery which China needs to rebuild her wartime highways but which are being sold because China

requires more dollars. China is retaining some of this equipment for her own use.

Not all the equipment was classified as heavy. One company purchased 18 shiploads of material on Manus Island from the Chinese Government. These stores, also sold to China at a fraction of their cost, included almost everything from more than 1,000 tons of toilet paper to 250 tons of fountain pens. This material is being sent directly to South America.

American representatives visiting Okinawa, site of the largest stores, were appalled at the method of handling stores. In many cases purchasers of surplus equipment indicated which pile was wanted and U.S. Army personnel shoved it together into a compact mass with bulldozers. Surplus property on Okinawa bought by China is stored in a

large fenced off area four miles long and three miles wide where an almost solid mass of every type of machinery imaginable had been pressed into solid formation with the assistance of bull dozers. Most of the equipment, ranging from jeeps to ambulances, is now just ruined junk although much of it is almost brand new equipment which suffered only from the weather.

Sale of surplus property is under the direction of the Chinese Board of Supplies of the Executive Yuan which earmarked a large quantity of the equipment for use in China and sold most of the remainder to three U.S. firms—the first lot to Vinell Corporation, the second lot to Stolte Incorporated with General Commodities Incorporated taking all the remaining pieces of equipment.

### THE TRADE OF THE UNITED KINGDOM

Foreign trade returns for the month of June, 1947, compare as follows: —

	June, 1947.	June, 1946.	—January/June— 1947.	1946.	First half 1938
Imports	£153,844,385	£102,878,413	£819,957,711	£599,767,154	£459,754,467
Exports	93,132,725	65,389,824	515,047,934	407,132,253	235,377,660

Britain's overseas trade in the first six months of 1947 resulted in an adverse balance of £268.9 millions.

The following table shows the proportion of total imports obtained from hard currency areas and other areas and also the proportion of exports to those areas in April/May compared with earlier periods.

	Percentage of Total.				£ Million
	Year	Fourth Quarter	First Quarter	April/ May	
	1938	1946	1947	1947	1947
<b>Imports (c.i.f.)</b>					
(1) Hard Currency Areas:					
U.S. dollar area	14.20	19.17	21.81	22.89	68.7
Canada and Newfoundland	8.84	15.37	12.39	13.24	39.8
Argentina	4.19	4.09	7.78	7.07	21.2
Other Latin America	2.85	3.78	2.87	1.76	5.3
Sweden, Switzerland, Portugal and Portuguese Colonies	3.91	3.47	2.78	2.33	7.0
Total	33.99	45.88	47.63	47.29	142.0
(2) Other Areas:					
Sterling area:					
British	31.56	32.92	33.44	32.16	96.6
Non-British	1.61	1.34	1.35	1.67	5.0
European countries and their colonies not specified above	29.68	17.28	16.29	16.68	50.1
Rest of the world	3.16	2.58	1.31	2.20	6.6
Total	66.01	54.12	52.37	52.71	158.3
Total of all areas	100.00	100.00	100.00	100.00	300.3

	Total Exports (f.o.b.) including Re-exports				
	1938	1946	1947	1947	
(1) Hard Currency Areas:					
U.S. dollar area	6.78	5.95	7.81	8.40	15.6
Canada and Newfoundland	4.61	4.00	3.50	3.54	6.6
Argentina	3.70	2.33	2.33	3.30	6.1
Other Latin America	1.99	2.49	2.44	2.53	4.7
Sweden, Switzerland, Portugal and Portuguese Colonies	4.24	5.20	5.16	5.61	10.5
Total	21.32	19.97	21.24	23.38	43.5
(2) Other Areas:					
Sterling area:					
British	41.64	44.18	44.80	43.78	81.5
Non-British	2.22	3.89	4.60	3.55	6.6
European countries and their colonies not specified above	32.06	28.50	25.77	26.11	48.6
Rest of the world	2.76	3.46	3.59	3.18	5.9
Total	78.68	80.03	78.76	76.62	142.6
Total of all areas	100.00	100.00	100.00	100.00	186.10



## HONGKONG STOCK & SHARE MARKET.

Improved sentiment was in evidence at the opening of the Market for the week, September 22 to 26. With buyers increasing bids a comparatively larger turnover was noticed. Though selectivity continued to be the keynote gains, as compared with the previous week's closing prices, were registered in many counters, notably, H.K. Banks, Wharfs, China Providents, H.K. Hotels, Realties, H.K. Tramways, China Lights, Electrics, Cements, Dairy Farms and Watsons. The tone at the close was steady to firm.

Mr. Felix M. Ellis' day by day averages for the period are as follows: September 22, 152.74; September 23, 153.38; September 24, 153.32; September 25, 153.24; and, September 26, 152.98 for a net gain for the period of 0.19. The small gain in the price index as compared to the actual gains in prices is accounted for by the split in one of the Stocks on the averages. But for this fact the price index would have stood at 154.61—a gain of 1.82 points for the week. Similarly, if all splits, or new issues during the year, were excluded the Ellis index, at the present price level, and as at the close of the week, would be 163.81, which is an interesting comparison with the high for the year of 155.82 recorded on May 3.

**TELEPHONES:** The disclosures at the Annual Meeting show a somewhat unfortunate state of affairs. To plead for an increase of rates at the present time would seem to be out of line with the Government's policy as expressed in His Excellency's speech shortly after his arrival. Another factor that should not be overlooked is the Socialist Government's policy in regard to communications generally. It would, therefore, perhaps be not unwise for the company to solve its own problem. It could commence by expansion of plant allowing for installation of the urgently required additional lines. The cost could quite easily be financed by the moneys being received from the calls on the new shares totalling \$1,875,000, and by sale of investments held on account of Depreciation Reserve. The two together should provide approximately \$8,000,000 for the needed expansion. It is felt that if this course be adopted the company should not find difficulty in maintaining a dividend of 12% per annum, or \$1.20 per share.

**REALTY:** The offer of \$18.35 per share net, in order to keep the company in existence, is attractive, and it is believed will be accepted by most shareholders. Factors that will influence acceptance are: 1.) The delay involved in final liquidation and declaration of final dividend; 2.) The utmost liquidation will yield is \$18.10 per share; 3.) The Directors have accepted the offer in respect of their entire holdings; and 4.) Payment to those accepting will be made within a month. In consequence of these

facts revealed at the Extraordinary Meeting convened for the purpose of Liquidation the price improved to \$18.

**WHARFS:** Renewed interest was evinced in this stock. Some attribute the reason to Dr. Soong's appointment to the Governorship of his native Province, which may prove bullish for this class of investment.

**DAIRY FARM & WATSONS** again reached new all-time highs. The former came to business at 99½ but closed at 98, while the latter reached 79½ and closed at 77. The performance of both stocks was outstanding throughout the week.

**MACAO ELECTRICS:** The claim of the Company against the Macao Govt. in respect of over \$2 million is still not yet settled although prospects are favourable that the Portuguese authorities, who took over and managed the British firm's property during the war years, may soon arrive at a decision which will probably include a monetary reimbursement and the Macao Govt. permission for adjustment of the rates as currently charged by the company. The delay so far has been found most inconvenient by especially the small holders who would have expected a dividend payment for last year.

In our issue of Sept. 17 a table was published in which the pre-war dividend of the Macao Electric Co. was given at \$1; this was a misprint, the figure should have read \$2. The Company's dividend for 1940 amounted to \$1.50 plus a bonus of 50 cents, and the amount of \$2 was paid to shareholders after the Annual Meeting which was held on April 30, 1941.

### Rubber Shares

Trading in rubber plantation shares has been more active during the last few weeks. Shanghai holders are starting to come into the local market. A number of rubber estates' annual meetings will be held soon here, the first two companies having announced shareholders' meetings are Alma Estates Ltd. and Chemor United Rubber Co. Ltd., both meetings scheduled for October 7.

Last week's business done in Rubber Trust shares was around \$5.25, and in Semagaga shares around \$1.50 per share. Many thousand shares of rubber estates changed hands last week.

The first announcement of a rubber plantation company to pay dividend in respect of any post-war period comes from Samagaga Rubber Co., Ltd. who will pay HK\$0.04 per share on account of the period ended Sept. 30, 1946.

Further annual meetings of rubber estates are scheduled for Oct. 24, viz: Cheng Rubber Estates Ltd., Samagaga Rubber Co., Ltd., and Semagaga Rubber Estates Ltd.



## HONGKONG COMPANY MEETINGS

### Hongkong Realty & Trust Co. Ltd.

At the extraordinary meeting of the

Company, held on Sept. 24, the Share  
holders were informed of an offer  
made by Wheelock-Marden Co. Ltd.

### STOCK EXCHANGE QUOTATIONS

	Sept.	Sept.	Sept.
<b>H.K. GOVT LOANS</b>			
4% Loan	23	26	30
3½% Loan	107	107½	106
	101	101	101
<b>BANKS</b>			
H.K. & S. Bank	2000	2020	2050
H.K. & S. Bank (Lon. Reg.)	£111	111½	112½
Chartered Bank	£11½	10½	11½
Mercantile Bk. A. & B.	£22	22	21½
Bank of East Asia	110	110	110
<b>INSURANCES</b>			
Canton Ins.	415	415	415
Union Ins.	800	795	810
China Underwriters	9½	9½	9½
H.K. Fire Ins.	290	285	285
<b>SHIPPING</b>			
Douglases	260	260	260
H.K. & M. Steamboats	14½	14½	14½
Indo China (Pref.)	101	101	101
Indo China (Def.)	379	379	379
Shells (Bearer)	86 10	85 7	84 4½
Union Waterboats	43	43	43
<b>DOCKS, WHARVES, GODOWNS,</b>			
H.K. & K. Wharves	245	255	250
H.K. Docks	43	42	43
China Providents	25½	25½	25½
S'hai Dockyards	17½	17.10	17½
<b>MINING</b>			
Raub Mines	5½	—	5½
H.K. Mines	.025	—	.025
<b>LANDS, HOTELS &amp; BLDGS.</b>			
H. & S. Hotels	26	26½	26½
H.K. Lands	84½	83½	84
S'hai Lands	5	5½	5
Humphreys Estates	33	33	33
H.K. Realities	17	18	18½
Chinese Estates	190	190	190
<b>PUBLIC UTILITIES</b>			
H.K. Tramways	27½	26½	26½
Peak Trams (Old)	11	11	10½
Peak Trams (New)	4½	5	4½
Star Ferries	135	136	136
Yaumati Ferries	28	29	28
C. Lights (Old)	21.40	21½	21½
C. Lights (New)	15.85	16½	16
H.K. Electrics	59½	59	59
Macao Electrics	24½	24	24½
Sandakan Lights	12	12	12
Telephones (Old)	47½	47½	47
Telephones (New)	38½	40	40
<b>INDUSTRIALS</b>			
Canton Ices	7	7	7
Cements	38½	37	37½
H.K. Ropes	22½	22½	22
<b>STORES &amp;c.</b>			
Dairy Farms	100	98	99
Watsons	79	79	77
Lane, Crawfords	58	60	60
Sinceres	10.80	10½	10
China Emporium	14½	14½	14½
Sun Co., Ltd.	5.35	5.35	5.35
Kwong Sang Hong	200	200	200
Wing On (H.K.)	165	164	164
Wm. Powell, Ltd.	9½	9½	10½
<b>MISCELLANEOUS</b>			
China Entertainments	37½	37½	37½
H.K. Constructions (Old)	6½	5	6
H.K. Constructions (New)	5	5	5
Vibro Piling	6½	6	6½
Marsman Investments	13 3	13 3	13 3
Marsman, (H.K.)	1 6	1 6	1 6
<b>COTTONS</b>			
Ewos	11	12	11½

who offered to purchase the 200,000 Shares (nominal value \$10 each) at a price of \$18.35 per share. The Board of Directors recommended this offer to the shareholders and it is certain to be accepted. The conservatively estimated return to shareholders would, in case of liquidation, amount to \$18.10, thus the Wheelock-Marden Co. actually offers to invest about 25 cents per share, or a total of about \$50,000, for the name and good will of Hongkong Realities. As it is known that Mr. G. E. Marden, the principal executive of the Wheelock-Marden Co. Ltd., has always been and continues to be interested in real estate business, the purchase offer of \$18.35 appears to be not very high, especially considering the fact that the Directors of H.K. Realty Co. have been very conservatively estimating the eventual return to shareholders.

Directors of the Company are: Mr. F. C. Barry (Chairman and Secretary), Messrs. D. C. Davis, P. K. Kwok and Sir Shouson Chow.

At the ordinary yearly meeting held on May 28, 1947, the Chairman informed the shareholders that the time had come to decide on the future of the Company and its liquidation would be recommended at a meeting of shareholders to be called later. Since then the Company's only remaining property, at Repulse Bay, has been sold as have the remaining investments with the exception of 1,668 shares of Hongkong Electric Company, Ltd. The shares were lost but the necessary steps to obtain their replacement have been taken. Disposal of the Company's assets having reached the stage outlined no good purpose would be served in continuing with the Company and voluntary winding-up was recommended.

The position arising as a result of the sales referred to is that the assets of the Company comprise a cash balance of \$3,741,000 and the 1,668 shares of Hongkong Electric which will later be sold when issued. Liabilities total \$219,200. A surplus of \$3,521,800 will exist when liquidation is ended which is to be augmented by the anticipated sale of the shares.

However, the Board received an offer from Wheelock-Marden Co. Ltd. who is anxious that the Company should remain in existence, to purchase all the shares of the Company direct from the holders at \$18.35 per share. The purchaser is also prepared to pay all transfer fees and stamp duty.

The offer is subject to a condition that the Directors accept the offer in respect of their own shares and recommend the acceptance to other shareholders; it is also conditional upon acceptance by shareholders, holding 51 per cent. of the Company's Capital, by October 21, 1947.

The surplus available for distribution to shareholders on liquidation amounts approximately to \$3,521,800.



If added to this amount the proceeds of the sale of 1,668 shares of Hong Kong Electric at their present market price, the total available would be in the region of \$3,647,000. This figure, after taking into account the estimated costs of liquidation, would represent a return to shareholders of \$18.10 per share.

The Board have decided to accept the offer so far as their own shares are concerned, and recommend its acceptance by shareholders. The advantages are that shareholders will receive at least 25 cents more per share.

## HONGKONG TELEPHONE CO. LTD.

The 18th ordinary annual meeting of the Company was held on Sept. 25 when Accounts for the year ended Dec. 31, 1946 were presented to shareholders. The balance from Working Account of \$897,242 was only about half of what the Company expected under normal operations, however, income from Interest, Dividends and Exchange, amounting to \$221,151, was somewhat higher than normal, reflecting the recovery in business generally during 1946.

The dividend for 1946 amounted to \$1.20 for the fully paid up shares (\$10 each) and 30 cents for the partly paid up shares (\$2.50 each). The current market price for the fully paid up shares moves around \$46/47 and on this basis the yield per share is around 2½ to 3¼% (Govt. loans yield between 3½ to 3¾%).

The net profit carried to Appropriation Account stands at \$673,535, and after transferring \$92,577 to Capital Reserve, and making provision for Corporation Profits Tax in the sum of \$60,000 the payment of a dividend at the rate of 12 percent per annum was made possible only by transferring \$155,000 from Dividend Equalisation Reserve.

There is little to be said about the Fixed Assets which do not yet reflect the heavy capital expenditure to be incurred in the near future in the expansion of business.

On July 10, 1947, the Directors decided to call up the balance outstanding on the partly-paid shares, amounting to \$1,875,000. The first call of \$2.50 per share became payable on August 18, and the 2nd and 3rd calls are payable on October 18 and December 18 respectively. This will augment Working Capital to take care of immediate requirements; but is clear that further adjustment of the Capital structure will shortly be necessary.

Investments show considerable appreciation over book values, and the cash position is healthy, but will require continuous careful scrutiny in view of present and future commitments.

On the Liabilities side Capital Reserve Fund—which was extinguished in writing off War Losses—has been re-instituted and the former annual Sinking Fund instalment of \$92,577 has been appropriated to this Account. The accepted purpose of providing this Fund is the amortisation of the capital over the period of the Franchise and the amount of the annual appropriation should be adequate to achieve this end. The present annual appropri-

## Kai Tak Airfield

With a monthly average of 380 aircraft the Colony's only airport (Kaitak) handled a total of 41,947 passengers in the eight-month period between January and August 1947, as well as 392 metric tons of commercial cargo. In August alone 9,403 passengers landed and took off from Kaitak. This number equals about half the number of passengers which used the new London airport last May. The record number of aircraft at Kaitak in a single day was established in August with 28 planes.

Owned by the Hong Kong Government and operated by the Directorate of Air Services as well as shared by the Royal Air Force and Royal Navy, the Kaitak

tion is inadequate, but adjustment cannot be made without Government approval, which has so far been withheld.

A matter which has given some anxiety to the Directors is the necessity for relating the increased (and still increasing) costs of labour and materials more closely to the revenue earned. The revenue derived from operating should bear a proper relationship to the cost of operating and the value of the service rendered. If this is not so, expansion is retarded and the quality of service must ultimately deteriorate, because it is not possible to continue to provide indefinitely for high grade service on inadequate rates.

Since the re-occupation of the Colony, the Telephone Co. has supplied service at rates which are approximately only 50 percent higher than those prevailing in 1941. The advances in costs of labour and material are so much out of line with operating revenue as to make present charges for telephone service uneconomic, and application has been made to Government for increased charges.

Govt. has, however, not yet considered an increase and it is not at all likely that approval will be given.

Orders have been placed for extensions to the Main Automatic Exchanges in both Hongkong and Kowloon. The drafting of specifications and the preliminary engineering necessary before these orders even reach the 'blue-print' stage is extensive, but these matters have been attended to with the greatest possible expedition. Notwithstanding the difficulties in obtaining supplies, service has been given to some 2,000 additional subscribers during the period under review. Furthermore, much work has been done in bringing up to accepted standards plant and equipment which had suffered from lack of maintenance during the war years.

On September 8, 1947, radio telephone service between Hongkong and Manila was re-established.

Directors—Mr. N. O. C. Marsh (Chairman), Mr. E. R. Hill, Sir Shouson Chow, Mr. D. C. Davis, Sir Robert Kotewall, Mr. F. C. Barrie and Mr. J. P. Sherry (Managing Director); Acting Manager, Mr. R. E. Farrell; Secretary, Mr. S. Grove.

## AVIATION REPORTS

airport was built for both land based planes and flying boats and seaplanes.

The airfield lies on the north side of Kowloon Bay, which forms the seaplane alighting area, and is 13½ feet above sea level, while its magnetic variation is 0° 36' W. The position of the airport is 22° 20' N. and 114° 12' E. three miles from Kowloon bearing 215° magnetic.

It has two runways, one measures 4,580 feet in length and 330 feet in width and the other 4,730 feet in length and 225 feet in width. The remainder of the airfield's surface is of decomposed granite partly grass covered. In wet weather aircraft should not leave the runways, taxi tracks or hardstandings. The runways are considered capable of bearing aircraft up to a total weight of 70,000 pounds.

There is no hangar accommodation available for any commercial aircraft, though fuel and oil can be supplied and limited repairs can be undertaken by air operating companies and by arrangement with R.A.F. There is likewise no lighting for night flying except in emergency cases. The Directorate of Air Services maintains two radio navigating aid stations at Hung Hom and Waglan Island, two radar responders at Victoria Peak and two close-range radio aids at Kaitak and one beam approach Beacon system at Cape D'Aguiar.

The airfield is open to commercial aircraft between 7 a.m. and 6 p.m. Beyond these hours, radio system at Kaitak ceases functioning and aircraft landing or taking off do so only at their own risk, the Air Traffic Control accepting no responsibility.

Parking and mooring fees are charged by area per 24 hours; it costs \$1 for every 500 square feet to \$28 for every 12,000 square feet, plus \$2 for each additional 1,000 square feet. Landing fees are charged by weight from 12,000 pounds at \$2 to 30,000 pounds at \$36, plus \$4 for each additional 5,000 pounds. All these fees are still maintained at the 1927 level and are lower than the charges of any commercial airport in the world.

## Terminal Building at Kaitak

Unlike three months ago when passengers on arriving at Kaitak had to spend between one and two hours waiting in temporary put-up tents for completion of various formalities, Kaitak today offers comfortable and up-to-date facilities for air travelling passengers. This was made possible following the erection of a terminal building occupying 6,250 square feet. There are in the terminal building an immigration department, a Customs section, a medical examining centre, a spacious waiting room and restaurant, an air traffic office (giving information on expected arrivals and departures) and telegram and telephone service desks. The general public may contact the air traffic office by telephone for information regarding the approximate times of arrivals of any commercial aircraft of all airlines. A commercial firm has set up a booth inside the terminal building.



Passengers arriving at Kaitak are only required to spend about 30 minutes to go through all formalities of immigration, customs inspection and medical examination. The terminal building offers adequate services to outgoing passengers. While awaiting the take-off, passengers can enjoy meals and refreshments at the restaurant section.

### Inadequate Airport

Technical facilities of Hong Kong Airport are not up to present-day standard and the construction of a new airfield is most urgently required. A district manager of a British airline referred to Kaitak as a "shocking airport" and scored the lack of runways capable of accommodating bigger aircraft such as the British "Tudors" or American "Constellations".

Without a better and bigger airport, another local airline manager foresees that Hongkong will gradually lose its importance as an air travelling centre in the Far East and all first class air transportation may then bypass the Colony probably within five years' time. Hongkong might eventually become a back-alley of international aviation.

The present two runways of the airport are considered not absolutely safe for the take-off of DC-4 Skymasters; in many instances an aircraft is required to turn its direction shortly after taking off in order to avoid a hill which is 122-metres above sea level. Thus it proves often dangerous to get the aircraft safely to the desired height into the air.

Throughout the summer season when winds usually travel in southeasterly direction, aircraft are mostly directed to take off from Kaitak's main runway—which measures 4,580 feet in length and 330 feet in width—in the easterly direction. In doing so, a DC-4 Skymaster when fully loaded will have to change its direction immediately after taking off to avoid the hill range.

Furthermore, the 4,580-foot runway is actually only 4,280 feet in length for a DC-4 Skymaster—which is the largest type thus far used by airlines operating in Hongkong—in taking off when it is fully loaded. For, according to recommendations made by the Air Safety Board, 300 feet must be deducted from the runway length when computing the permissible weight with the "wind factor formula". This will mean either reducing weight limitations by amounts varying from 3,000 to 4,000 pounds or calculating the runway length by 300 feet less when the aircraft is fully loaded.

Because of the inadequacy of Kaitak, many foreign airlines have to run shuttle services using DC-3 and DC-4 machines between here and various other points in the Far East instead of bringing heavy planes like Constellations and Tudors into Hongkong from Europe or the United States.

### Air Control Area of Hongkong

Hongkong is in need of not only a bigger airport but also a 24-hour non-stop radio service for aircraft travelling within the Colony's 1,000,000-square-mile air control area. For Hongkong is one

of the world's several air control areas designated by the International Aviation Conference. Situated on the northeast corner of the allocated air control area, Hongkong controls 1,000,000 square miles bounded by 8 degrees N. Lat. to 25 degrees N. Lat. and 102 degrees E. Long. to 118 degrees E. Long. Any aircraft, military, commercial or otherwise, when entering the above area will have to report by radio to Hongkong's air control station, which is responsible for directing all planes within its area to fly at different heights to prevent accidents. Thus, without a 24-hour radio service, aircraft travelling within Hongkong's area between 6 p.m. and 7 a.m. are without any radio aids.

### Royal Air Force

Since the Royal Air Force staging post at Shanghai closed down about a year ago, there has been no British air establishment in China, and sky connection between Hongkong and Japan is maintained by No. 88 squadron of the Royal Air Force, based at Kaitak and operating Sunderland flying boats.

Transport Command of the R.A.F. does not function, as such, east of Singapore, the headquarters of Air Command, Far East, which has replaced Air Command, South-East Asia, established during the war. A.C.F.E. details planes for passenger and freight-carrying east of Singapore, but the R.A.F. finds increasing difficulty in assuming civilian commitments. It undertook these so that B.O.A.C. could be launched as a state-sponsored civilian enterprise, competing with the commercial flying services of other countries.

The process has been one of a gradual hand over, and it is well advanced. When it is completed the R.A.F. will revert on its Far East stations, as elsewhere, to ordinary peacetime training, garrison duties and service ferrying.

The service of R.A.F. has not been merely a question of increasing the number of civilian aircraft, pilots and crews to take care of commercial traffic. It has also been a matter of substituting trained civilian personnel for such airfield duties as flying control and meteorological service.

There is a permanent R.A.F. station here and a Royal Navy one as well. Demobilization in the R.A.F. has interfered with replacement, generally, and the substitution of civilian personnel has not kept pace with the demand for it. The policy therefore has been one of contraction.

The R.A.F. has played a most valuable and essential part in launching Britain's post-war commercial aviation which now is approaching the point where it will no longer need service assistance.

### Pan-American World Airways (PAWA)

The first of the flying Clipper ships of P.A.W.A., "Clipper Oriental," arrived in Hongkong on Sept. 28 from Manila. This event marked the resumption of scheduled services by P.A.W.A. between the U.S. and Hongkong.

The history of this trans-Pacific air route begins with Pan-American Airways

back in 1930, with the establishing of a regular transport service across the Caribbean.

For five years this Caribbean route was a laboratory of preparation. Technical preparations and improvements followed in meteorology; radio, navigation, landings and take-offs for night operations.

Today Clipper crews change at Guam, Wake and Honolulu in order to maintain a minimum of crew fatigue and the most in efficiency.

Trans-Pacific flights were inaugurated on November 22, 1935 and on September 17, 1936, the operating permit issued by the Director of Air Services of Hongkong became effective.

Ten years ago the "Hongkong Clipper" was assigned the role of performing weekly flights between Manila and Hongkong and on return connecting San Francisco. This service was increased to bi-weekly and continued until the morning of December 8, 1941.

The "Hongkong Clipper" scheduled for a return trip to Manila that day, was an objective of the Japanese dive bombers as it lay tied to the dock. After the first direct hit it was aflame and after a few minutes burned to the water line.

During the war, Pan-American served with both the Naval Air Transport Service and the Army Transport Command flying military personnel and high priority cargo to all parts of the world. In November of 1945 commercial services were resumed between San Francisco and Honolulu.

The first round-the-world scheduled air service was commenced in June this year—from Alaska to Australia, from California to Calcutta. Those eight words sum up the story of Clippers in the Pacific, their current operations and future expansion.

Today one can board a Clipper in Hongkong and be in Manila, Bangkok or Shanghai the same afternoon; Tokyo or Calcutta the same evening. Services will shortly be resumed to Saigon, Singapore, Batavia and Rangoon.

With the arrival of the "Clipper Oriental" on Sept. 28, the following frequency of schedules will be followed. Departures for Manila, Guam, Wake, Honolulu, San Francisco or Los Angeles on each Sunday and Wednesday. Departure on Wednesday for Shanghai, Tokyo, Wake, Honolulu, San Francisco or Los Angeles. A weekly departure on Monday for Bangkok, Calcutta, Karachi, Istanbul, London, Ireland, Gander, New York or Washington, D.C.

The equipment to be used in this division will be Douglas Skymaster, 4-engine Clippers. In an effort to give the maximum of comfort, the standard 44 seats have been removed and replaced with 30 Sleeperette type lounge chairs, a luxurious new travel unit with day and night comfort. These are used exclusively on Trans-Pacific Clippers.